

Financial Statements and Independent Auditors' Report

Arthritis Foundation, Inc. National Office

Year Ended December 31, 2012
(With Summarized Financial Information for the
Year Ended December 31, 2011)



Report of Independent Auditors

Board of Directors
Arthritis Foundation, Inc. National Office

We have audited the accompanying financial statements of the Arthritis Foundation, Inc. National Office, (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, 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.

Report on Summarized Comparative Information

We have previously audited the Arthritis Foundation, Inc. National Office's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 4, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Metcalf Davis

Atlanta, Georgia

June 3, 2013

ARTHRITIS FOUNDATION, INC.

NATIONAL OFFICE

Statement of Financial Position

December 31, 2012 with Summarized Financial Information as of December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2012	2011
<u>Assets</u>					
Cash and cash equivalents	\$ 3,117,826	\$ 2,084,005	\$ 277,686	\$ 5,479,517	\$ 9,278,452
Investments	3,398,229	13,830,861	5,894,562	23,123,652	21,581,174
Due from Chartered Entities	2,961,143	916,817	-	3,877,960	7,790,363
Accounts receivable, net	2,327,734	37,800	-	2,365,534	2,726,258
Contributions receivable, net	1,185,040	4,713,161	-	5,898,201	6,652,569
Prepaid expenses and other assets	1,363,263	-	-	1,363,263	1,672,474
Inventory	499,106	-	-	499,106	430,906
Beneficial interests in perpetual trusts	-	-	7,932,996	7,932,996	7,303,296
Property and equipment, net	5,475,719	-	-	5,475,719	7,177,625
Total assets	\$ 20,328,060	\$ 21,582,644	\$ 14,105,244	\$ 56,015,948	\$ 64,613,117
<u>Liabilities and Net Assets</u>					
Accounts payable	\$ 3,146,516	\$ -	\$ -	\$ 3,146,516	\$ 3,288,050
Accrued expenses and other liabilities	3,213,993	-	-	3,213,993	3,146,911
Research awards and grants payable	6,283,803	-	-	6,283,803	5,836,605
Due to Chartered Entities	1,353,245	-	-	1,353,245	2,957,580
Liabilities under split interest agreements	-	9,825,653	-	9,825,653	9,699,538
Funds held in trust for Chartered Entities	59,418	-	994,153	1,053,571	1,222,807
Debt obligations	2,761,700	-	-	2,761,700	3,776,286
Total liabilities	16,818,675	9,825,653	994,153	27,638,481	29,927,777
Net assets committed for future research grants	2,500,000	1,800,000	-	4,300,000	5,930,000
Other net assets	1,009,385	9,956,991	13,111,091	24,077,467	28,755,340
Total net assets	3,509,385	11,756,991	13,111,091	28,377,467	34,685,340
Total liabilities and net assets	\$ 20,328,060	\$ 21,582,644	\$ 14,105,244	\$ 56,015,948	\$ 64,613,117

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Statement of Activities

Year Ended December 31, 2012 with Summarized Financial Information for the Year Ended December 31, 2011

<u>Operating Activities</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2012	2011
Direct response marketing contributions	\$ 13,913,615	\$ -	\$ -	\$ 13,913,615	\$ 14,396,348
Chartered Entities share of direct response marketing	(4,528,735)	-	-	(4,528,735)	(5,312,052)
National share of direct response marketing	9,384,880	-	-	9,384,880	9,084,296
Corporate contributions	2,839,520	3,793,074	-	6,632,594	8,752,399
Net assets released from restrictions (corporate)	880,138	(880,138)	-	-	-
Chartered Entities share of corporate contributions	(2,258,474)	-	-	(2,258,474)	(1,923,287)
National share of corporate contributions	1,461,184	2,912,936	-	4,374,120	6,829,112
Bequests/planned giving	10,282	486,200	-	496,482	345,199
Other gifts	142,926	330,000	-	472,926	614,790
Total direct public support	10,999,272	3,729,136	-	14,728,408	16,873,397
Chartered Entities research contributions	-	2,550,348	-	2,550,348	3,024,085
Contributed goods and services	282,250	-	-	282,250	171,862
Total public support	11,281,522	6,279,484	-	17,561,006	20,069,344
Government grants	622,449	-	-	622,449	548,922
Endowment return appropriated for current operations	-	299,559	-	299,559	210,522
Investment income appropriated for current operations	161,171	473,758	-	634,929	709,073
Advertising	6,292,037	-	-	6,292,037	6,610,860
Sales to the public	2,168,700	-	-	2,168,700	2,664,650
Rental income	510,206	-	-	510,206	692,850
Other income and losses	(744,238)	(91,250)	-	(835,488)	335,022
Other external revenue, gains and losses	9,010,325	682,067	-	9,692,392	11,771,899
Contribution share	7,197,966	156,145	-	7,354,111	8,154,520
Bequest share	7,816,973	1,073,656	-	8,890,629	10,339,322
Technology fees - cost recovery	1,996,732	-	-	1,996,732	1,836,322
Sales and service fees - cost recovery	470,673	-	-	470,673	429,522
Arthritis Today - cost recovery	1,202,731	-	-	1,202,731	1,287,282
Total payments from Chartered Entities	18,685,075	1,229,801	-	19,914,876	22,046,968
Net assets released from restrictions	10,092,065	(10,092,065)	-	-	-
Total revenues, gains and public support	49,068,987	(1,900,713)	-	47,168,274	53,888,211
<u>Expenses</u>					
Research	10,369,075	-	-	10,369,075	10,608,677
Public health education	24,011,348	-	-	24,011,348	23,768,165
Professional education and training	472,648	-	-	472,648	503,770
Patient and community services	7,625,258	-	-	7,625,258	8,055,331
Fundraising	5,875,404	-	-	5,875,404	6,356,512
Management and general	6,432,665	-	-	6,432,665	6,123,341
Total expenses	54,786,398	-	-	54,786,398	55,415,796
Change in net assets from operating activities	(5,717,411)	(1,900,713)	-	(7,618,124)	(1,527,585)
<u>Non-operating Activities</u>					
Endowment return over (under) spending policy	-	300,105	-	300,105	(252,901)
Unrealized and realized gains (losses) on investments other than endowment	59,363	1,247,808	-	1,307,171	(608,152)
Unrealized gains (losses) on beneficial interest in perpetual trusts	-	-	629,700	629,700	(635,467)
Change in valuation of split interest agreements	-	(926,725)	-	(926,725)	(502,186)
Change in net assets from non-operating activities	59,363	621,188	629,700	1,310,251	(1,998,706)
Change in net assets	(5,658,048)	(1,279,525)	629,700	(6,307,873)	(3,526,291)
Net assets, beginning of year	9,167,433	13,036,516	12,481,391	34,685,340	38,211,631
Net assets, end of year	<u>\$ 3,509,385</u>	<u>\$ 11,756,991</u>	<u>\$ 13,111,091</u>	<u>\$ 28,377,467</u>	<u>\$ 34,685,340</u>

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Statement of Functional Expenses

Year Ended December 31, 2012 with Summarized Financial Information for the Year Ended December 31, 2011

Expenses	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	2012	2011
Research grants and awards	\$ 7,668,746	\$ 68,440	\$ 640	\$ 26,560	\$ 7,764,386	\$ 7,890	\$ 2,410	\$ 10,300	\$ 7,774,686	\$ 8,475,600
Salaries	845,376	4,244,628	167,918	1,872,635	7,130,557	1,920,345	3,598,867	5,519,212	12,649,769	11,215,404
Payroll taxes	56,674	299,061	12,619	135,373	503,727	133,149	247,092	380,241	883,968	791,682
Employee benefits	135,995	678,176	29,475	303,790	1,147,436	277,433	504,019	781,452	1,928,888	1,793,326
Advertising commissions	-	328,113	-	315,247	643,360	-	-	-	643,360	713,635
Data processing and accounting services	82,040	437,989	22,925	185,339	728,293	116,248	454,209	570,457	1,298,750	1,301,319
Professional fees and contract services	392,364	3,731,143	44,935	1,151,407	5,319,849	274,801	403,407	678,208	5,998,057	6,904,227
Professional services - contributed	265,314	-	-	-	265,314	14,113	2,823	16,936	282,250	171,860
Supplies	17,223	77,627	2,974	27,956	125,780	26,549	27,220	53,769	179,549	177,011
Printing, publications, and artwork	14,986	1,218,876	4,769	931,976	2,170,607	45,962	10,982	56,944	2,227,551	2,870,847
Materials expenses	4,213	208,569	1,536	189,782	404,100	41,019	4,387	45,406	449,506	437,987
Membership/direct response marketing	234,532	8,998,642	117,266	187,626	9,538,066	2,242,102	117,266	2,359,368	11,897,434	11,761,779
Corporate direct	18,432	93,836	6,702	6,702	125,672	33,512	8,378	41,890	167,562	136,495
Fulfillment	-	374,492	-	350,491	724,983	-	-	-	724,983	765,627
Postage, shipping, and delivery	9,975	1,104,622	1,351	975,340	2,091,288	18,508	23,065	41,573	2,132,861	2,387,952
Telephone	21,837	100,770	17,121	73,931	213,659	87,421	306,811	394,232	607,891	510,988
Occupancy	77,787	176,045	4,094	61,411	319,337	45,035	45,035	90,070	409,407	430,964
Insurance	33,016	74,720	1,738	26,065	135,539	19,115	19,115	38,230	173,769	165,714
Staff travel	76,443	169,924	2,788	77,792	326,947	163,745	74,317	238,062	565,009	540,655
Volunteer travel and leadership development	107,058	242,827	1,671	100,079	451,635	56,428	62,825	119,253	570,888	484,978
Meeting and conferences	81,235	201,552	3,529	112,351	398,667	39,124	84,331	123,455	522,122	500,194
Equipment lease and maintenance	24,584	93,897	16,374	70,514	205,369	73,995	296,846	370,841	576,210	814,077
Membership dues and subscriptions	22,397	93,327	2,493	22,551	140,768	28,361	34,049	62,410	203,178	168,211
Advertising	1,650	520,364	600	190,423	713,037	116,985	9,131	126,116	839,153	704,931
Miscellaneous	85,014	173,203	4,278	66,948	329,443	40,195	42,711	82,906	412,349	433,183
Depreciation	78,339	177,292	4,123	61,846	321,600	45,354	45,354	90,708	412,308	491,241
Uncollectible receivables	13,845	123,213	729	101,123	238,910	8,015	8,015	16,030	254,940	265,909
Total expenses	\$ 10,369,075	\$ 24,011,348	\$ 472,648	\$ 7,625,258	\$ 42,478,329	\$ 5,875,404	\$ 6,432,665	\$ 12,308,069	\$ 54,786,398	\$ 55,415,796

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Statement of Cash Flows

Year Ended December 31, 2012 with Summarized Financial Information as of December 31, 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (6,307,873)	\$ (3,526,291)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	412,308	491,241
Donated investments	(242,220)	(141,416)
Net unrealized (gains) losses on beneficial interests in perpetual trusts	(629,700)	635,467
Net realized and unrealized (gains) losses on investments	(1,778,638)	739,817
Net change in valuation of split interest agreements	926,725	502,186
Writedown from software impairment	1,277,473	-
Changes in assets and liabilities:		
Due from Chartered Entities	3,912,403	(561,989)
Accounts receivable	360,724	1,088,638
Contributions receivable	754,368	(1,722,086)
Prepaid expenses and other assets	238,251	(192,537)
Inventory	(68,200)	179,844
Accounts payable	(141,534)	586,861
Accrued expenses and other liabilities	67,082	284,406
Research awards and grants payable	447,198	2,014,719
Due to Chartered Entities	(1,604,335)	52,288
Liabilities under split interest agreements	(800,610)	(556,711)
Funds held in trust for Chartered Entities	(169,236)	990,183
Net cash (used in) provided by operating activities	(3,345,814)	864,620
Cash flows from investing activities:		
Purchase of property and equipment	(193,354)	(366,526)
Purchase of investments	(8,333,162)	(9,499,922)
Proceeds from sale of investments	8,811,542	8,928,288
Net cash provided by (used in) investing activities	285,026	(938,160)
Cash flows from financing activities:		
Payments on long-term debt	(400,000)	(400,000)
Proceeds from line of credit	1,000,000	-
Payments on line of credit	(1,000,000)	-
Payments on capital lease obligations	(338,147)	(297,905)
Net cash used in financing activities	(738,147)	(697,905)
Net decrease in cash and cash equivalents	(3,798,935)	(771,445)
Cash and cash equivalents at beginning of year	9,278,452	10,049,897
Cash and cash equivalents at end of year	\$ 5,479,517	\$ 9,278,452
<u>Supplemental data:</u>		
Interest paid by National Office	\$ 104,835	\$ 116,771
Non-cash investing and financing activities:		
Property acquired through capital leases	-	28,166

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Notes to Financial Statements

December 31, 2012 with summarized information for the year ended December 31, 2011

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 programs.

The Arthritis Foundation is composed of a National Office and 12 chartered entities located throughout the United States. The chartered entities (10 regions and two 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.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Notes to Financial Statements

December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2012 and 2011.

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, 2012 and 2011 and, accordingly, no liability has been accrued.

Generally, the Internal Revenue Service (“IRS”) may examine a tax return for three years from the date it is filed. At December 31, 2012, tax years ended December 31, 2011, 2010 and 2009 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.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Notes to Financial Statements

December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2012, the National Office's uninsured cash balance was approximately \$3,700,000. The National Office has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents are highly liquid investments with an original maturity of three months or less at the date of purchase.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. The cost assigned to investments received by gift is the fair value at the date the gift is received. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on cost (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 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.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Notes to Financial Statements

December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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's policy is to capitalize property and equipment acquisitions in excess of \$5,000.

Contributed Goods and Services – Contributed goods and services are reflected as both contribution revenue and expenses if they meet the criteria defined in accordance with GAAP, "Accounting for Contributions", in the accompanying statement of activities at their estimated fair value at date of receipt. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided. Generally such services include research grant application reviews and other services donated by volunteers.

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.

ARTHRITIS FOUNDATION, INC.
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Notes to Financial Statements

December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2011, from which the summarized financial information was derived.

Reclassifications – Certain reclassifications have been made to the 2011 balances to conform to the 2012 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:

	<u>2012</u>	<u>2011</u>
Membership/direct response marketing share	\$ 3,368,949	\$ 3,530,244
Organization-wide corporate contribution share	852,795	739,651
Contribution share	7,354,111	8,154,520
Bequest share	<u>8,890,629</u>	<u>10,339,322</u>
	<u>\$ 20,466,484</u>	<u>\$ 22,763,737</u>

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December 31, 2012 with summarized information for the year ended December 31, 2011

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:

	2012	2011
Membership/direct response marketing share	\$ 11,832,842	\$ 12,488,818
Corporate contributions	3,111,269	2,662,938
Awards and grants	100,500	165,625
	\$ 15,044,611	\$ 15,317,381

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 \$7,605,294 and \$7,199,648 in 2012 and 2011, respectively. At December 31, 2012 and 2011, the National Office was due \$3,877,960 and \$7,790,363, respectively, from the chartered entities for share, materials and services. The National Office considers this to be fully collectible.

NOTE 4 – INVESTMENTS

Investments at December 31, 2012 and 2011 were as follows:

	2012	2011
Marketable securities		
U.S. Government securities	\$ 933,692	\$ 1,308,843
Corporate notes and bonds	1,911,779	2,488,769
Domestic equity mutual funds	4,715,514	3,562,164
Fixed income mutual funds	1,496,654	1,188,188
International equity mutual funds	889,835	1,112,256
	9,947,474	9,660,220
Split interest agreements		
U.S. Government securities	277,810	266,225
Corporate notes and bonds	181,479	238,005
Domestic equity mutual funds	6,565,509	5,933,783
Fixed income mutual funds	4,224,818	3,878,227
International equity mutual funds	1,909,405	1,586,555
	13,159,021	11,902,795
Total marketable securities	23,106,495	21,563,015
Certificates of deposit	17,157	18,159
Total investments	\$ 23,123,652	\$ 21,581,174

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December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 4 – INVESTMENTS - Continued

The following summarizes the National Office’s total investment return for the years ending December 31, 2012 and 2011 and the classification in the statement of activities.

	December 31, 2012		
	Unrestricted	Temporarily Restricted	Total
Dividend and interest income	\$ 161,171	\$ 601,955	\$ 763,126
Net realized (losses) gains	(32,351)	79,601	47,250
Net unrealized gains	91,714	1,639,674	1,731,388
Total investment return	\$ 220,534	\$ 2,321,230	\$ 2,541,764

	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

NOTE 5 – FAIR VALUE MEASUREMENTS

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

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

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

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NOTE 5 – FAIR VALUE MEASUREMENTS - Continued

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.

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, 2012 and 2011:

	Fair value measurement December 31, 2012			
	Level I	Level II	Level III	Total
U.S. Government securities	\$ 279,591	\$ 931,911	\$ -	\$ 1,211,502
Corporate notes and bonds				
Real estate industry	-	181,479	-	181,479
Financial services industry	-	1,386,363	-	1,386,363
Other	-	525,416	-	525,416
Domestic equity mutual funds	11,281,023	-	-	11,281,023
Fixed income mutual funds	5,721,472	-	-	5,721,472
International equity mutual funds	<u>2,799,240</u>	<u>-</u>	<u>-</u>	<u>2,799,240</u>
Total marketable securities	<u>20,081,326</u>	<u>3,025,169</u>	<u>-</u>	<u>23,106,495</u>
Charitable remainder unitrust	-	-	1,216,927	1,216,927
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>7,932,996</u>	<u>7,932,996</u>
Total	<u>\$ 20,081,326</u>	<u>\$ 3,025,169</u>	<u>\$ 9,149,923</u>	<u>\$ 32,256,418</u>

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December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 5 – FAIR VALUE MEASUREMENTS - Continued

	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	<u>2,698,811</u>	<u>-</u>	<u>-</u>	<u>2,698,811</u>
Total marketable securities	<u>17,574,056</u>	<u>3,988,959</u>	<u>-</u>	<u>21,563,015</u>
Charitable remainder unitrust	-	-	1,150,313	1,150,313
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>7,303,296</u>	<u>7,303,296</u>
Total	<u>\$ 17,574,056</u>	<u>\$ 3,988,959</u>	<u>\$ 8,453,609</u>	<u>\$ 30,016,624</u>

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.

Quantitative information related to valuation inputs is not available since the value of the trusts that was provided by the trustees was used without adjustment. On an annual basis, management evaluates the return received from the trusts against the value of its portion of the trusts for reasonableness as compared with current market returns. Management believes that the sensitivity in the fair value measurement of the beneficial interests is related to market fluctuations, as the investments held in the trusts are primarily marketable securities.

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

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December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 5 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the National Office's Level III reconciliation for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 8,453,609	\$ 9,171,958
Increase (decrease) in charitable remainder unitrust	66,614	(82,882)
Net unrealized gain (loss)	<u>629,700</u>	<u>(635,467)</u>
Ending balance	<u>\$ 9,149,923</u>	<u>\$ 8,453,609</u>

NOTE 6 – 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, 2012 and 2011.

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NOTE 6 – 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.

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Notes to Financial Statements

December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 6 – ENDOWMENTS - Continued

Endowment net asset composition by type of fund as of December 31, 2012 and 2011:

	December 31, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted funds	\$ -	\$ 510,938	\$ 5,178,095	\$ 5,689,033
	December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 210,833	\$ 5,178,095	\$ 5,388,928
Changes in endowment net assets:				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2011	\$ -	\$ 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
Investment Return:				
Income	-	128,197	-	128,197
Net appreciation/depreciation (realized and unrealized)	-	471,467	-	471,467
Total investment return	-	599,664	-	599,664
Appropriation of endowment assets for expenditure	-	(299,559)	-	(299,559)
Endowment net assets, December 31, 2012	\$ -	\$ 510,938	\$ 5,178,095	\$ 5,689,033

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NOTE 7 – CONTRIBUTIONS RECEIVABLE

The National Office had the following contributions receivable at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Amounts due:		
In less than one year	\$ 3,749,791	\$ 4,383,109
In one to five years	<u>1,174,168</u>	<u>1,425,001</u>
Gross contributions receivable	4,923,959	5,808,110
Allowance for doubtful accounts	(231,148)	(290,406)
Split interest agreements	1,216,927	1,150,313
Unamortized present value discount	<u>(11,537)</u>	<u>(15,448)</u>
Net contributions receivable	<u>\$ 5,898,201</u>	<u>\$ 6,652,569</u>

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

**NOTE 8 – 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Charitable remainder trust	\$ 3,077,904	\$ 2,841,438
Gift annuity fund	9,663,956	8,665,348
Pooled income fund	<u>417,161</u>	<u>396,009</u>
Split interest agreements (included in investments)	13,159,021	11,902,795
CRUT (included in contributions receivable - Arthritis Foundation is not the trustee)	1,216,927	1,150,313
Perpetual trusts (Arthritis Foundation is not the trustee)	<u>7,932,996</u>	<u>7,303,296</u>
	<u>\$ 22,308,944</u>	<u>\$ 20,356,404</u>

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**NOTE 8 – 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 \$9,825,653 and \$9,669,538 for December 31, 2012 and 2011, 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 9 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2012 and 2011:

	<u>estimated useful life</u>	<u>2012</u>	<u>2011</u>
Land		\$ 2,400,000	\$ 2,400,000
Building and improvements	(10-30 years)	7,285,705	7,115,799
Leasehold improvements	(3-10 years)	239,198	239,198
Furniture and other equipment	(3-5 years)	<u>1,788,341</u>	<u>3,247,844</u>
		11,713,244	13,002,841
Accumulated depreciation		<u>(6,237,525)</u>	<u>(5,825,216)</u>
Net property and equipment		<u>\$ 5,475,719</u>	<u>\$ 7,177,625</u>

Depreciation expense was \$412,308 and \$491,241 for the years ended December 31, 2012 and 2011, respectively.

NOTE 10 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Wages	\$ 546,599	\$ 415,645
Payroll taxes and other related liabilities	487,170	416,063
Deferred subscription revenue	1,316,003	1,304,004
Other	<u>864,221</u>	<u>1,011,199</u>
Total accrued expenses and other liabilities	<u>\$ 3,213,993</u>	<u>\$ 3,146,911</u>

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NOTE 11 – DEBT OBLIGATIONS

In a prior year, 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. During the year ended June 30, 2012, management suspended development on a computer software system. This suspension reduced the total lease obligation by \$276,439. The present value of the remaining future minimum lease payments which are recorded as capitalized lease assets and related notes payable were both reduced. Assets under capital leases (net of accumulated depreciation) at December 31, 2012 and 2011 were \$122,079 and \$1,653,655, 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,

2013	\$ 292,789
2014	264,923
2015	230,083
2016	<u>6,300</u>
Total future minimum lease payments	794,095
Less amounts representing interest	<u>(32,395)</u>
Present value of net minimum lease payments	<u>\$ 761,700</u>

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 \$2,000,000 and \$2,400,000 at December 31, 2012 and 2011 with related interest rates of 1.82 percent and 1.86 percent, respectively. This loan includes certain affirmative and negative covenants of which the National Office either complies or has received a waiver for compliance from the lender.

The National Office has a line of credit with a local bank in the amount of \$2,000,000. No amounts were outstanding on this line of credit at December 31, 2012.

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NOTE 11 – DEBT OBLIGATIONS - Continued

Long-term debt matures as follows:

<u>For the years ending December 31,</u>	
2013	\$ 400,000
2014	500,000
2015	500,000
2016	<u>600,000</u>
Total bond payable	<u>\$ 2,000,000</u>
Total debt obligations (inclusive of lease payments)	<u><u>\$ 2,761,700</u></u>

NOTE 12 – JOINT COSTS

In 2012 and 2011, the National Office incurred joint costs of \$11,897,429 and \$11,761,779 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, 2012 and 2011 were allocated as follows:

	<u>2012</u>	<u>2011</u>
Public health education	\$ 8,998,642	\$ 8,424,211
Fundraising	2,242,102	2,654,668
Other	<u>656,690</u>	<u>682,900</u>
Total	<u>\$ 11,897,434</u>	<u>\$ 11,761,779</u>

NOTE 13 – NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Programs, scholarships, training and projects	\$ 3,919,200	\$ 5,317,642
Research	2,519,010	2,977,265
Use in future periods	<u>5,318,781</u>	<u>4,741,609</u>
Total temporarily restricted net assets	<u><u>\$ 11,756,991</u></u>	<u><u>\$ 13,036,516</u></u>

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December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 13 – NET ASSETS - Continued

Permanently restricted net assets consisted of the following at December 31, 2012 and 2011 and represent endowed gifts to be held in perpetuity with the investment income to be used for the following:

	2012	2011
Research and specific projects	\$ 11,965,359	\$ 11,335,659
Operations	1,145,732	1,145,732
Total permanently restricted net assets	\$ 13,111,091	\$ 12,481,391

Temporarily restricted net assets released from restrictions consisted of the following in the years ended December 31, 2012 and 2011:

	2012	2011
Programs	\$ 5,120,130	\$ 5,144,538
Research	4,971,935	6,850,006
Time releases	880,138	740,822
Total net assets released from restriction	\$ 10,972,203	\$ 12,735,366

NOTE 14 – OPERATING LEASES

The National Office has various operating leases for equipment and office space. Rental expense under these lease agreements was \$456,430 and \$449,435 for the years ended December 31, 2012 and 2011, 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:

<u>For the years ending December 31,</u>	
2013	\$ 390,447
2014	301,388
2015	198,992
2016	125,703
2017	107,219
Thereafter	339,525
Total future minimum lease payments	\$ 1,463,274

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NOTE 14 – OPERATING LEASES - Continued

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, 2012 is as follows:

<u>For the years ending December 31,</u>	
2013	\$ 263,202
2014	137,123
2015	76,241
2016	38,675
2017	28,097
Thereafter	<u>41,140</u>
 Total future minimum rental income	 <u>\$ 584,478</u>

NOTE 15 – 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, 2012 and 2011 were \$860,224 and \$781,630, respectively.

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 \$81,730 and \$82,500 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, the assets and liabilities each totaled \$487,895 and \$393,994, respectively.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Notes to Financial Statements

December 31, 2012 with summarized information for the year ended December 31, 2011

NOTE 16 – 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. The National Office has committed \$4,300,000 for 2013.

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 17 – SOFTWARE IMPAIRMENT

In 2010, the National Office began implementation of an enhancement to its constituent relationship management software system ("CRM"). The costs for that implementation were recorded as a work-in-progress asset. This asset would have been depreciated over five years once the implementation was completed. However, during 2012, the National Office indefinitely suspended the CRM enhancement project. The suspension of the software project created an impairment of the asset which resulted in a reduction of the accumulated costs to zero. The loss recognized on this impairment was \$1,277,473, which is included under other income and losses on the statement of activities.

NOTE 18 – SUBSEQUENT EVENTS

The National Office has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2012 financial statements through June 3, 2013, the date that the financial statements were available to be issued.