Financial Statements and Independent Auditors' Report

Arthritis Foundation
Chartered Entities and the National Office

Year ended December 31, 2013
(With Summarized Financial Information for the
Year ended December 31, 2012)

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Independent Auditors' Report

Board of Trustees
Arthritis Foundation

We have audited the accompanying combined financial statements of the Arthritis Foundation, Chartered Entities and the National Office, (a not-for-profit organization), which comprise the combined statement of financial position as of December 31, 2013, and the related combined 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 combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of certain Chartered Entities, whose statements reflect approximately 32 percent of total assets of $60,029,573, as of December 31, 2013, and approximately 33 percent of total support and revenues of $36,275,454, for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those Chartered Entities, is based solely on the report of the other auditors. 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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, based on our audit and the reports of other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Arthritis Foundation, Chartered Entities and the National Office, as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Arthritis Foundation, Chartered Entities and the National Office's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 3, 2013. We did not audit the financial statements of certain Chartered Entities, whose statements reflect approximately 35 percent of total assets of $64,445,160, as of December 31, 2012, and approximately 34 percent of total support and revenues of $34,200,363, for the year then ended. Those statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those Chartered Entities, is based solely on the reports of the other auditors. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Metcalf Davis

Atlanta, Georgia
May 7, 2014

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Financial Position
December 31, 2013 with Summarized Financial Information as of December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2013	Totals 2012
Assets					
Cash and cash equivalents	$ 279,625	$ 8,733,844	$ 458,722	$ 9,472,191	$ 14,749,512
Investments	29,321,517	34,801,344	36,549,348	100,672,209	97,096,351
Accounts and notes receivable, net	1,961,352	46,516	-	2,007,868	2,541,097
Contributions receivable, net	10,106,642	4,929,441	-	15,036,083	13,634,461
Funds held in trust by others	-	8,722,736	3,006,358	11,729,094	10,954,315
Prepaid expenses and other assets	2,440,046	-	-	2,440,046	2,425,696
Inventory	469,099	-	-	469,099	499,106
Beneficial interests in perpetual trusts	-	-	35,069,419	35,069,419	30,940,150
Property and equipment, net	8,889,613	-	-	8,889,613	9,364,900
Total assets	$ 53,467,894	$ 57,233,881	$ 75,083,847	$ 185,785,622	$ 182,205,588
Liabilities and Net Assets					
Accounts payable	$ 4,024,111	$ -	$ -	$ 4,024,111	$ 4,362,293
Accrued expenses and other liabilities	7,123,582	-	-	7,123,582	7,901,539
Research awards and grants payable	4,827,095	-	-	4,827,095	8,155,946
Liabilities under split interest agreements	-	9,880,769	-	9,880,769	10,053,468
Debt obligations	2,262,497	-	-	2,262,497	3,683,975
Total liabilities	18,237,285	9,880,769	-	28,118,054	34,157,221
Net assets	35,230,609	47,353,112	75,083,847	157,667,568	148,048,367
Total liabilities and net assets	$ 53,467,894	$ 57,233,881	$ 75,083,847	$ 185,785,622	$ 182,205,588

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Activities
Year Ended December 31, 2013 with Summarized Financial Information for the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2013	Totals 2012
Revenues, Gains and Public Support					
Direct response marketing contributions	$ 12,915,886	$ -	$ -	$ 12,915,886	$ 14,054,774
Corporate contributions	2,762,555	6,089,882	-	8,852,437	8,459,262
Personal contributions	1,978,059	2,151,038	20,000	4,149,097	2,503,855
Foundations	407,227	2,116,962	-	2,524,189	3,673,850
Memorials	248,637	12,854	-	261,491	351,990
Other gifts	380,500	120,817	-	501,317	802,666
Total contributions	18,692,864	10,491,553	20,000	29,204,417	29,846,397
Special events - gross income	28,595,765	-	-	28,595,765	28,323,950
Less direct donor benefit costs	(7,042,591)	-	-	(7,042,591)	(6,670,041)
Bequests/planned giving	17,508,298	4,865,607	2,088,086	24,461,991	20,523,316
Total direct public support	57,754,336	15,357,160	2,108,086	75,219,582	72,023,622
Federated campaigns	746,530	2,730	-	749,260	751,038
United Way	913,513	-	-	913,513	1,197,328
Total indirect public support	1,660,043	2,730	-	1,662,773	1,948,366
Contributed goods and services	4,871,480	-	-	4,871,480	4,080,625
Total public support	64,285,859	15,359,890	2,108,086	81,753,835	78,052,613
Government grants	1,680,157	7,500	-	1,687,657	1,471,320
Investment return for operations	2,857,832	2,329,120	-	5,186,952	4,938,515
Conferences, sales, other revenue, gains and losses	9,656,662	(219,659)	-	9,437,003	9,585,508
Total other revenue, gains and losses	14,194,651	2,116,961	-	16,311,612	15,995,343
Net assets released from restrictions	20,258,438	(20,191,104)	(67,334)	-	-
Total revenues, gains and public support	98,738,948	(2,714,253)	2,040,752	98,065,447	94,047,956
Expenses					
Research	9,429,117	-	-	9,429,117	13,454,241
Public health education	41,482,698	-	-	41,482,698	43,582,746
Professional education and training	2,275,419	-	-	2,275,419	2,374,123
Patient and community services	24,744,744	-	-	24,744,744	26,613,833
Fundraising	12,031,057	-	-	12,031,057	13,226,667
Management and general	10,449,949	-	-	10,449,949	11,317,962
Total expenses	100,412,984	-	-	100,412,984	110,569,572
Change in net assets from operating activities	(1,674,036)	(2,714,253)	2,040,752	(2,347,537)	(16,521,616)
Non-operating Income					
Return of donor contributions	(105,320)	(88,330)	-	(193,650)	-
Transfer of assets to the University of Pittsburgh	-	-	-	-	(356,637)
Non-operating investment return	5,010,216	5,444,443	-	10,454,659	5,975,062
Unrealized gains on beneficial interests in perpetual trusts	-	-	2,237,216	2,237,216	1,309,489
Change in valuation in split interest agreements	-	(273,385)	-	(273,385)	(648,932)
Net change in pension liabilities	(258,102)	-	-	(258,102)	204,613
Change in net assets from non-operating activities	4,646,794	5,082,728	2,237,216	11,966,738	6,483,595
Change in net assets	2,972,758	2,368,475	4,277,968	9,619,201	(10,038,021)
Net assets, beginning of year	32,257,851	44,984,637	70,805,879	148,048,367	158,086,388
Net assets, end of year	$ 35,230,609	$ 47,353,112	$ 75,083,847	$ 157,667,568	$ 148,048,367

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Functional Expenses
Year Ended December 31, 2013 with Summarized Financial Information for the Year Ended December 31, 2012

	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	2013	2012
Research grants and awards	$ 6,183,535	$ 30,973	$ 1,800	$ 445,814	$ 6,662,122	$ -	$ -	$ -	$ 6,662,122	$ 10,398,767
Salaries	1,366,442	14,828,503	1,148,618	8,821,741	26,165,304	4,953,986	5,608,367	10,562,353	36,727,657	39,628,997
Payroll taxes	99,007	1,155,799	90,092	690,978	2,035,876	384,252	424,599	808,851	2,844,727	3,051,992
Employee benefits	208,638	2,255,931	171,886	1,306,432	3,942,887	703,693	821,694	1,525,387	5,468,274	6,242,050
Advertising commissions	-	256,851	-	246,782	503,633	-	-	-	503,633	643,360
Professional fees and contract services	484,334	4,477,059	176,803	1,965,335	7,103,531	594,524	1,349,672	1,944,196	9,047,727	9,448,264
Professional services - contributed	175,316	657,696	22,186	1,201,195	2,056,393	42,453	4,728	47,181	2,103,574	1,694,783
Supplies	21,200	348,717	24,280	331,800	725,997	121,575	88,985	210,560	936,557	1,043,612
Supplies and materials - contributed	-	36,786	-	2,521,897	2,558,683	233,731	-	233,731	2,792,414	2,307,142
Printing, publications, and artwork	52,030	1,624,747	49,686	1,196,641	2,923,104	374,431	81,041	455,472	3,378,576	3,831,480
Membership/direct response marketing	237,095	8,272,594	118,548	189,676	8,817,913	2,495,275	118,551	2,613,826	11,431,739	11,897,434
Postage, shipping, and delivery	18,104	1,660,350	20,638	1,461,189	3,160,281	150,608	66,174	216,782	3,377,063	3,568,107
Telephone	35,358	276,351	39,973	181,103	532,785	118,103	357,214	475,317	1,008,102	1,201,205
Occupancy	100,898	1,532,248	115,253	985,816	2,734,215	463,386	362,960	826,346	3,560,561	3,779,148
Insurance	46,735	284,896	19,945	162,365	513,941	86,682	66,801	153,483	667,424	633,733
Staff travel	67,435	653,846	53,758	460,085	1,235,124	351,866	146,977	498,843	1,733,967	1,939,535
Meetings and conferences	67,754	1,079,527	83,987	1,178,735	2,410,003	227,153	147,228	374,381	2,784,384	3,237,029
Equipment lease and maintenance	36,914	324,792	45,773	222,841	630,320	129,191	400,916	530,107	1,160,427	1,256,163
Membership dues and subscriptions	27,493	129,054	7,124	45,878	209,549	41,007	39,484	80,491	290,040	318,159
Specific assistance to individuals	-	-	-	319,908	319,908	-	-	-	319,908	359,051
Advertising	6,858	537,985	21,366	208,485	774,694	120,399	32,216	152,615	927,309	1,416,316
Miscellaneous	116,807	677,967	50,943	399,611	1,245,328	339,425	224,244	563,669	1,808,997	1,622,832
Depreciation	77,164	317,193	12,652	144,249	551,258	80,803	77,021	157,824	709,082	780,524
Uncollectible receivables	-	62,833	108	56,188	119,129	18,514	31,077	49,591	168,720	269,889
Total operating expenses	$ 9,429,117	$ 41,482,698	$ 2,275,419	$ 24,744,744	$ 77,931,978	$ 12,031,057	$ 10,449,949	$ 22,481,006	$ 100,412,984	$ 110,569,572

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Cash Flows
Year ended December 31, 2013 with Summarized Financial Information as of December 31, 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 9,619,201	$ (10,038,021)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	709,082	780,524
Loss on sale of property and equipment	61,193	26,548
Donated equipment	-	(14,025)
Net unrealized gains in beneficial interests in perpetual trusts	(2,237,216)	(1,309,489)
Net realized and unrealized gains on investments	(11,172,939)	(6,765,647)
Net change in valuation in split interest agreements	273,385	648,932
Writedown from software impairment	-	1,277,473
Contributions restricted for long-term investment	(216,033)	(362,228)
Changes in assets and liabilities:		
Accounts and notes receivable	533,229	858,453
Contributions receivable	(1,401,622)	2,118,978
Funds held in trust by others	(774,779)	(2,075,950)
Prepaid expenses and other assets	(14,350)	414,276
Inventory	30,007	(68,200)
Beneficial interests in perpetual trusts	(1,892,053)	(50,725)
Accounts payable	(338,182)	(186,599)
Accrued expenses and other liabilities	(777,957)	581,865
Research awards and grants payable	(3,328,851)	1,919,864
Liabilities under split interest agreements	(446,084)	(533,633)
Net cash used in operating activities	(11,373,969)	(12,777,604)
Cash flows from investing activities:		
Purchase of property and equipment	(317,388)	(406,852)
Proceeds from sale of property and equipment	22,400	248,338
Purchase of investments	(46,106,982)	(57,770,634)
Proceeds from sale of investments	53,704,063	59,218,461
Net cash provided by investing activities	7,302,093	1,289,313
Cash flows from financing activities:		
Proceeds restricted for investment in endowment	216,033	362,228
Proceeds from note payable	-	109,935
Repayments of note payable	(400,000)	(445,000)
Proceeds from line of credit	-	750,000
Payments on line of credit	(500,000)	-
Payments on other long-term debt/capital lease obligations	(521,478)	(804,983)
Net cash used in financing activities	(1,205,445)	(27,820)
Net decrease in cash and cash equivalents	(5,277,321)	(11,516,111)
Cash and cash equivalents at beginning of year	14,749,512	26,265,623
Cash and cash equivalents at end of year	$ 9,472,191	$ 14,749,512
Supplemental information		
Interest paid	$ 158,349	$ 188,988
Noncash investing and financing activities:		
Property and equipment acquired through capital leases	72,545	40,019
Contribution of beneficial interests in perpetual trusts	$ 1,892,053	$ 50,725

The accompanying notes are an integral part of this statement.

NOTE 1 – DESCRIPTION OF ORGANIZATION

The Arthritis Foundation (the "Foundation") is a 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 Foundation 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 (a not-for-profit Georgia corporation) and Chartered Entities located throughout the United States. The Chartered Entities are affiliated with the National Office via separate charter agreements. The charter agreements impose certain obligations on the Chartered Entities including adhering to national policies and sharing revenue. The Arthritis Foundation operates under a single (Section 501(c)(3) of the Internal Revenue Code ("IRC")) 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 Foundation 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 accompanying combined financial statements include the accounts of the Arthritis Foundation, Inc. National Office (the "National Office") and all Arthritis Foundation Chartered Entities (which are separately incorporated). All significant intra-Foundation accounts and transactions have been eliminated in the accompanying financial statements. The Foundation 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 Foundation 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 Foundation and/or the passage of time.
>
> *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that the Foundation maintains them permanently. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

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 Foundation defines as non-operating. Non-operating includes all investment returns in excess of those classified as operating by the spending policy, unrealized gains and losses from operating accounts, unrealized gains and losses on beneficial interests in perpetual trusts, changes in valuation of split interest agreements, returns of donor contributions, transfers of assets to the University of Pittsburgh, and net changes in pension liabilities.

In 2012, one of the Chartered Entities petitioned the court to have an endowment fund in the amount of $356,637 transferred to the University of Pittsburgh (Medical and Health Sciences Foundation) in order to more effectively fund the specific research that was designated in the donor’s gift document. The petition was granted in November 2012.

Income Taxes - The Foundation 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 IRC. At times the Foundation may be engaged in 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 change in net assets of the Foundation as of and for the years ended December 31, 2013 and 2012.

The Foundation’s policy is to record a liability for any tax position taken that is beneficial to the Foundation, 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, 2013 and 2012, 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, 2013, tax years ended December 31, 2012, 2011 and 2010 remained open for possible examination by the IRS.

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 per eligible institution. At December 31, 2013, the Foundation's uninsured cash balance totaled approximately $6,170,000. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents are highly liquid investments with an original maturity of three months or less at the date of purchase. Because of the short maturity of these financial instruments, the carrying value approximates the fair value.

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

Accounts Receivable - Accounts receivable consist of exchange transactions primarily related to government grants and sales and service fees and are stated at unpaid balances, less an allowance for doubtful accounts when deemed necessary. Receivables are considered past due 120 days after billing.

Allowance for Doubtful Accounts – An allowance for doubtful accounts on outstanding accounts or contributions receivable balances is recorded when deemed necessary based upon historical trends, current market risk assessments and specific donor considerations.

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

Split Interest Agreements - The Foundation's split interest agreements are recorded as follows:

> *Charitable gift annuities and other split interest agreements under which the Foundation is the trustee* are valued at the date of donation using the income method and discount rates commensurate with the risks involved. Discount rates range from three to 10 percent. Charitable gift annuities are amortized over their life although changes may be made based on a change in the life expectancy of the donor. Gift annuity assets are included in investments and amounts due to the donor are included in liabilities under split interest agreements.
>
> *Split interest gifts held by others* are included with other contributions receivable on the statement of financial position. These gifts which benefit not only the Foundation, but other beneficiaries as designated by the donor, are carried at fair value with the changes recorded as a component of temporarily restricted income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Beneficial Interests in Perpetual Trusts - The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The Foundation has legally enforceable rights or claims to such assets including the right to income therefrom. Under the perpetual trust arrangement, the Foundation 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 investment income 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 by Others - Included in funds held in trust by others are split interest agreements not managed by the Foundation and funds transferred by various Chartered Entities to local community foundations to invest and manage. Most community foundation agreements state that the transfer is irrevocable and that the transferred assets will not be returned to the Arthritis Foundation. However, the community foundations will make annual distributions of the income earned on the funds. Although unlikely, the agreement also permits the community foundations to substitute another beneficiary in the place of the Arthritis Foundation if the Arthritis Foundation ceases to exist or if the governing board of the community foundations votes that support of the Arthritis Foundation either is no longer necessary or is inconsistent with the needs of the community.

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 Foundation'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, medical services, speakers, trainers, other program services, and other services that meet the criteria for recognition as contributed services.

In addition, the Foundation receives services from a large number of volunteers who give significant amounts of their time to the Foundation'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.

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 expenses 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 Foundation'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 Foundation 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.

Comparative Data - The financial statements include certain prior year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such financial information should be read in conjunction with the Foundation's financial statements as of and for the year ended December 31, 2012 from which the summarized financial information was derived.

Reclassifications - Certain reclassifications have been made to the 2012 balances to conform to the 2013 presentation.

ARTHRITIS FOUNDATION
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Notes To Financial Statements
December 31, 2013 with summarized information for the year ended December 31, 2012

NOTE 3 – INVESTMENTS

Investments at December 31, 2013 and 2012 were as follows:

	2013	2012
Marketable securities		
U.S. Government securities	$ 4,565,297	$ 8,325,435
Corporate notes and bonds	6,295,772	8,457,751
Common stocks	24,555,438	19,841,555
Domestic equity mutual funds	20,795,447	18,505,392
Fixed income mutual funds	14,365,305	12,703,741
International equity mutual funds	6,900,372	5,732,614
Preferred stock	212,075	-
Alternative investments	2,565,703	1,028,256
Other commodities	1,439,447	551,190
Foreign issues	644,249	551,143
Other - principally money market and other mutual funds	3,166,117	6,450,345
	85,505,222	82,147,422
Split interest agreements		
U.S. Government securities	264,244	277,810
Corporate notes and bonds	167,521	181,479
Domestic equity mutual funds	7,241,113	6,735,145
Fixed income mutual funds	4,607,906	4,324,914
International equity mutual funds	2,042,674	1,957,400
	14,323,458	13,476,748
Total marketable securities	99,828,680	95,624,170
Certificates of deposit	843,529	1,472,181
Total investments	$100,672,209	$ 97,096,351

The following schedule summarizes the investment returns, net of investment management fees, for the years ending December 31, 2013 and 2012:

	2013	2012
Investment return		
Income	$ 4,468,672	$ 4,147,930
Net realized and unrealized gains	11,172,939	6,765,647
Total investment return	15,641,611	10,913,577
Less investment return for operations	(5,186,952)	(4,938,515)
Non-operating investment return	$ 10,454,659	$ 5,975,062

NOTE 4 – FAIR VALUE MEASUREMENTS

Professional literature defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The guidance states that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs classified within Levels I and II of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level III of the hierarchy).

Level I - Quoted prices for identical instruments in active markets. This category includes 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 includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities that are valued based on market prices for similar and actively traded investments. This category also includes alternative investments that are valued at net asset value ("NAV") per share for which the Region has the ability to redeem its investment at the measurement date.

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 Foundation's assumptions based on the best information available in the circumstances. This category includes beneficial trusts for which the Foundation is not the trustee. The trusts are valued based on the values of the underlying investments in the trust which are established by the trustee using valuation methods that are appropriate for the investments in the trusts.

Quantitative information related to valuation inputs for level III assets is not available since the value of the trusts that was provided by the trustees was used without adjustment. On an annual basis, Foundation 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.

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Foundation's investments, split interest agreements and beneficial interests in perpetual trusts by the above hierarchy levels as of December 31, 2013:

	Level I	Level II	Level III	Total
U.S. Government securities	$ 3,049,759	$ 1,779,782	$ -	$ 4,829,541
Corporate notes and bonds				
Financial services industry	-	1,884,732	-	1,884,732
Industrial goods industry	-	1,242,983	-	1,242,983
Real estate industry	-	167,521	-	167,521
Other	1,862,039	1,306,018	-	3,168,057
Common stocks				
Consumer discretionary industry	2,860,381	-	-	2,860,381
Consumer staples industry	1,666,790	-	-	1,666,790
Energy industry	1,451,336	-	-	1,451,336
Financial services industry	3,579,829	-	-	3,579,829
Healthcare industry	3,350,378	-	-	3,350,378
Industrial goods industry	2,101,115	-	-	2,101,115
Materials industry	1,263,229	-	-	1,263,229
Oil and gas industry	352,931	-	-	352,931
Technology industry	2,804,840	-	-	2,804,840
Telecommunications industry	347,164	-	-	347,164
Utilities industry	210,244	-	-	210,244
Other	4,567,201	-	-	4,567,201
Domestic equity mutual funds	20,831,377	7,205,183	-	28,036,560
Fixed income mutual funds	11,123,024	7,850,187	-	18,973,211
International equity mutual funds	6,185,339	2,757,707	-	8,943,046
Preferred stock	212,075	-	-	212,075
Alternative investments	-	2,565,703	-	2,565,703
Other commodities	426,682	1,012,765	-	1,439,447
Foreign issues	-	644,249	-	644,249
Other - principally money market and other mutual funds	3,019,792	146,325	-	3,166,117
Total marketable securities included in investments	71,265,525	28,563,155	-	99,828,680
Beneficial interests in perpetual trusts	-	-	35,069,419	35,069,419
Funds held in trust by others	-	-	11,729,094	11,729,094
Total	$ 71,265,525	$ 28,563,155	$ 46,798,513	$ 146,627,193

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Foundation's investments, split interest agreements and beneficial interests in perpetual trusts by the above hierarchy levels as of December 31, 2012:

	Level I	Level II	Level III	Total
U.S. Government securities	$ 3,694,759	$ 4,908,486	$ -	$ 8,603,245
Corporate notes and bonds				
Financial services industry	-	2,291,886	-	2,291,886
Industrial goods industry	-	1,483,530	-	1,483,530
Real estate industry	-	181,479	-	181,479
Utilities industry	-	103,102	-	103,102
Other	1,722,491	2,856,742	-	4,579,233
Common stocks				
Consumer goods industry	3,909,877	-	-	3,909,877
Energy industry	1,450,727	-	-	1,450,727
Financial services industry	2,889,631	-	-	2,889,631
Healthcare industry	3,058,743	-	-	3,058,743
Industrial goods industry	1,597,812	-	-	1,597,812
Materials industry	973,057	-	-	973,057
Oil and gas industry	357,367	-	-	357,367
Technology industry	2,864,374	-	-	2,864,374
Utilities industry	633,679	-	-	633,679
Other	2,106,288	-	-	2,106,288
Domestic equity mutual funds	22,717,450	2,523,087	-	25,240,537
Fixed income mutual funds	13,325,910	3,702,745	-	17,028,655
International equity mutual funds	5,733,691	1,956,323	-	7,690,014
Alternative investments	-	1,028,256	-	1,028,256
Other commodities	549,891	1,299	-	551,190
Foreign issues	-	551,143	-	551,143
Other - principally money market and other mutual funds	6,374,518	75,827	-	6,450,345
Total marketable securities included in investments	73,960,265	21,663,905	-	95,624,170
Beneficial interests in perpetual trusts	-	-	30,940,150	30,940,150
Funds held in trust by others	-	-	10,954,315	10,954,315
Total	$ 73,960,265	$ 21,663,905	$ 41,894,465	$ 137,518,635

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the Foundation's Level III reconciliation for the beneficial interests in perpetual trusts and funds held in trust by others for the years ended December 31, 2013 and 2012:

	2013	2012
Beginning balance	$ 41,894,465	$ 38,458,301
Increase in beneficial interests in perpetual trusts	1,892,053	50,725
Increase in funds held in trust by others	774,779	2,075,950
Net unrealized gains	2,237,216	1,309,489
Ending balance	$ 46,798,513	$ 41,894,465

The Foundation utilizes the NAV reported by each of the alternative funds as a practical expedient for determining the fair value of the investment. These investments are redeemable at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Foundation's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Foundation's interest in the funds.

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table discloses the nature and risks of the Foundation's alternative investments classified as Level II at December 31, 2013:

	Total market value	Exit frequency	Days notice
Hedge funds disclosed as Level II			
BA Hedge Fund Direct - OZ Domestic Partners II	$ 702,509	Quarterly	45
BACAP Multi-Strategy Hedge Fund, LTD.	22,248	Quarterly	65
Goldman Sachs Absolute Return Tracker Fund Institutional Shares	734,087	Daily	N/A
Hatteras Alpha Hedged Strategies Fund Institutional Shares	440,449	Daily	N/A
PIMCO Global Multi-Asset Fund Institutional Class	283,086	Daily	N/A
Total hedge funds disclosed as Level II	2,182,379		
Real estate funds disclosed as Level II			
BA Diversified Real Estate Fund, L.P.	383,324	Quarterly	90
Total alternative investments disclosed as Level II	$ 2,565,703		

BA Hedge Fund Direct – OZ Domestic Partners II – this is an offshore hedge fund that invests primarily in a portfolio of equity securities, but its portfolio includes convertible securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives.

BACAP Multi-Strategy Hedge Fund, LTD. – this is an offshore hedge fund that invests primarily in private investment funds and discretionary managed accounts managed by fund managers who invest across a diverse range of strategies and markets.

Goldman Sachs Absolute Return Tracker Fund Institutional Shares – this is an offshore hedge fund that seeks to deliver long-term total return consistent with investment results that approximate the return and risk patterns of a diversified universe of hedge funds. The fund uses a quantitative methodology in combination with a qualitative overlay to seek to identify the market exposures that approximate the return and risk patterns of specific hedge fund sub-strategies. The hedge fund sub-strategies whose returns the fund seeks to approximate include, but are not limited to, Equity Long Short, Event Driven, Relative Value, and Macro sub-strategies.

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

Hatteras Alpha Hedged Strategies Fund Institutional Shares – this is a hedge fund that seeks to achieve consistent returns with low correlation to traditional financial market indices while maintaining a high correlation to the Hedge Fund Research, Inc. ("HFRI") Fund of Funds Composite Index. The fund pursues its investment objective by investing primarily in affiliated Long/Short Equity, Market Neutral, Relative Value - Long/Short Debt, Event Driven and Managed Futures Strategies portfolios ("underlying funds"). It may also invest in other non-affiliated investment companies primarily including exchange-traded funds ("ETFs").

PIMCO Global Multi-Asset Fund Institutional Class – this is a hedge fund that seeks maximum long-term absolute return, consistent with prudent management of portfolio volatility. The fund seeks to achieve its investment objective by investing under normal circumstances in a combination of affiliated and unaffiliated funds, which may or may not be registered under the Investment Company Act of 1940, as amended (the "1940 Act"), Fixed Income Instruments, equity securities, forwards and derivatives. "Fixed Income Instruments" include bonds, debt securities and other similar instruments issued by various U.S. and non-U.S. public- or private sector entities. The fund is non-diversified.

BA Diversified Real Estate Fund, L.P. – this is a partnership established to conduct real estate related investment activities and any business or activities incidental to or in support of such real estate related investment activities.

NOTE 5 – ENDOWMENTS

The Foundation’s endowment consists of a number of individual funds established for research, specific programs and operations.

The Foundation understands the law 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 Foundation 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.

For the Chartered Entity organized in the state of Pennsylvania, management understands Pennsylvania State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. State law also allows the Foundation to appropriate and spend such income and gains as is prudent, considering such factors as the Foundation’s long and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions. Accordingly, such realized and unrealized gains and losses are reported as temporarily restricted or unrestricted, based upon the presence or absence of donor stipulations as to their use.

NOTE 5 – ENDOWMENTS - Continued

The remaining portion of donor-restricted endowment funds 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 the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In accordance with UPMIFA, the Foundation 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 Foundation or 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 Foundation
7. The investment policy of the Foundation

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. For the year ended December 31, 2012, as a result of unfavorable market conditions, the Foundation's endowment funds experienced deficiencies from original fair value totaling $261, which was recorded as a decrease in unrestricted net assets as required by GAAP. No such deficiencies were noted for the year ended December 31, 2013.

The primary long-term financial objective for the Foundation's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. Performance of the overall endowment against this objective is measured over rolling periods of one, three and five years. The endowments shall be managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that funds the Foundation'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.

Foundation policy requires endowment assets to be governed by a spending policy that seeks to distribute a specific payout rate of the endowment base to support the Foundation'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). Without specific board action to either increase or decrease the payout rate, the Foundation's annual investment income payout distribution is calculated at a rate of four percent of the rolling three year average fair market value of the investments plus amounts paid for share on investment income. 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.

NOTE 5 – ENDOWMENTS - Continued

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 Foundation’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.

In considering the prudency criteria as outlined by UPMIFA, in 2013, the board of one of the Chartered Entities determined that it was prudent to appropriate an additional $1.6 million in accumulated earnings on which there were no purpose restrictions to fund research, consumer initiatives through the National Office, and operations.

Endowment net asset composition by type of fund as of December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 7,889,743	$ 37,008,070	$ 44,897,813

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ (261)	$ 6,586,874	$ 36,958,302	$ 43,544,915
Board designated	4,570,260	-	-	4,570,260
Total funds	$ 4,569,999	$ 6,586,874	$ 36,958,302	$ 48,115,175

NOTE 5 – ENDOWMENTS - Continued

Changes in endowment net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, January 1, 2012	$ 4,502,936	$ 4,396,331	$ 37,303,254	$ 46,202,521
Investment Return				
Income	270	661,071	-	661,341
Net appreciation (realized and unrealized)	9,620	2,856,566	-	2,866,186
Total investment return	9,890	3,517,637	-	3,527,527
Contributions	56,232	(22,618)	11,685	45,299
Appropriation of endowment assets for expenditure	941	(1,304,476)	-	(1,303,535)
Transfer of endowment to the University of Pittsburgh	-	-	(356,637)	(356,637)
Endowment Net Assets, December 31, 2012	4,569,999	6,586,874	36,958,302	48,115,175
Investment Return				
Income	-	804,688	-	804,688
Net appreciation (realized and unrealized)	261	3,693,629	-	3,693,890
Total investment return	261	4,498,317	-	4,498,578
Contributions	-	-	117,102	117,102
Appropriation of endowment assets for expenditure	(570,260)	(3,195,448)	(67,334)	(3,833,042)
Release of board designated quasi-endowment	(4,000,000)	-	-	(4,000,000)
Endowment Net Assets, December 31, 2013	$ -	$ 7,889,743	$ 37,008,070	$ 44,897,813

NOTE 6 – CONTRIBUTIONS RECEIVABLE

The Foundation had the following contributions receivable at December 31, 2013 and 2012:

	2013	2012
Amounts due		
In less than one year	$ 14,421,096	$ 11,266,288
In one to five years	1,521,329	2,825,157
Gross contributions receivable	15,942,425	14,091,445
Allowance for doubtful accounts	(818,803)	(396,499)
Unamortized present value discount	(87,539)	(60,485)
Net contributions receivable	$ 15,036,083	$ 13,634,461

Discounts on contributions receivable were calculated at the date of donation using rates commensurate with the risks involved (one percent to nine percent).

NOTE 7 – SPLIT INTEREST AGREEMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Foundation had the following interests at December 31, 2013 and 2012:

	2013	2012
Split interest agreements - Foundation is the trustee		
Charitable remainder trusts	$ 3,421,989	$ 3,077,904
Gift annuity fund	10,462,774	9,981,683
Pooled income fund	438,695	417,161
Split interest agreements (included in investments)	14,323,458	13,476,748
Funds held in trust by others - Foundation is not the trustee	11,729,094	10,954,315
Beneficial interests in perpetual trusts - Foundation is not the trustee	35,069,419	30,940,150
	$ 61,121,971	$ 55,371,213

The assets are reported on the statement of financial position and are valued at estimated fair-value. Liabilities under split interest agreements for which the Foundation is the trustee were $9,880,769 and $10,053,468 for December 31, 2013 and 2012, respectively, and 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 8 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2013 and 2012:

	Estimated useful life	2013	2012
Land		$ 3,047,651	$ 3,047,651
Building and improvements	(10-30 years)	11,548,608	11,527,524
Leasehold improvements	(3-10 years)	667,916	659,491
Furniture and other equipment	(3-5 years)	3,692,759	3,676,931
		18,956,934	18,911,597
Accumulated depreciation		(10,067,321)	(9,546,697)
Net property and equipment		$ 8,889,613	$ 9,364,900

Depreciation expense was $709,082 and $780,524 for the years ended December 31, 2013 and 2012, respectively.

NOTE 9 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at December 31, 2013 and 2012:

	2013	2012
Wages, payroll taxes and other related liabilities	$ 2,278,994	$ 2,621,688
Defined benefit obligation - unfunded	1,132,166	1,288,552
Deferred compensation plan	381,838	487,895
Other	3,330,584	3,503,404
Total accrued expenses and other liabilities	$ 7,123,582	$ 7,901,539

NOTE 10 – DEBT OBLIGATIONS

The Foundation has leased various assets, primarily office equipment, with lease terms approximating the useful lives of the assets. During the year ended December 31, 2012, management of the National Office 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, 2013 and 2012 were $240,095 and $216,470, respectively, and are included in property and equipment on the statement of financial position.

NOTE 10 – DEBT OBLIGATIONS - Continued

Revenue Bonds - 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 $1,600,000 and $2,000,000 at December 31, 2013 and 2012 with related interest rates of 1.79 percent and 1.82 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.

Line of Credit - At December 31, 2013, the Foundation had available lines of credit in the amount of $7,300,000. No amounts were outstanding on the lines of credit at December 31, 2013. Such debt obligations are secured by land, building and other assets. Interest rates ranged from 3 percent to 3.25 percent at December 31, 2013.

Future minimum lease payments under capital leases were as follows at December 31, 2013 and 2012:

	2013	2012
2013	$ -	$ 446,332
2014	339,412	418,689
2015	304,571	97,241
2016	38,633	33,760
2017	18,520	13,765
2018	1,598	-
Total future minimum lease payments	702,734	1,009,787
Less amounts representing interest	(40,237)	(90,186)
Present value of net minimum lease payments	662,497	919,601
Notes payable	1,600,000	2,014,374
Lines of credit	-	750,000
Total debt obligations	$ 2,262,497	$ 3,683,975

NOTE 10 – DEBT OBLIGATIONS - Continued

Maturities of notes payable are as follows for the years ending subsequent to December 31, 2013:

2014	$ 500,000
2015	500,000
2016	600,000
Total	$ 1,600,000

NOTE 11 – JOINT COSTS

In 2013 and 2012, the Foundation incurred joint costs of $11,431,739 and $11,897,434, respectively, for informational materials and activities that included fundraising appeals, such as the Foundation's direct mail. Joint costs for the years ended December 31, 2013 and 2012 were allocated as follows:

	2013	2012
Public health education	$ 8,272,594	$ 8,998,642
Fundraising	2,495,275	2,242,102
Management and general	118,551	117,266
Other programs	545,319	539,424
	$ 11,431,739	$ 11,897,434

NOTE 12 – NET ASSETS

Temporarily restricted net assets at December 31, 2013 and 2012 were available for the following purposes:

	2013	2012
Programs, scholarships, training and projects	$ 14,511,757	$ 15,906,645
Research	15,445,106	11,738,711
Building improvements	-	273,702
Use in future periods	17,396,249	17,065,579
Total temporarily restricted net assets	$ 47,353,112	$ 44,984,637

Permanently restricted net assets consisted of the following at December 31, 2013 and 2012 and represent endowed gifts to be held in perpetuity with the investment income to be used for:

	2013	2012
Research and specific projects	$ 10,919,184	$ 7,229,525
Operations	29,095,244	32,636,204
Beneficial interests in perpetual trusts	35,069,419	30,940,150
Total permanently restricted net assets	$ 75,083,847	$ 70,805,879

Temporarily restricted net assets released from restrictions consisted of the following in the years ended December 31, 2013 and 2012:

	2013	2012
Programs	$ 10,187,053	$ 9,300,389
Building improvements	273,702	-
Research	5,534,365	7,828,491
Time release	4,195,984	2,414,462
Temporarily restricted net assets released from restriction	$ 20,191,104	$ 19,543,342

NOTE 13 – OPERATING LEASES

Rental expense for Foundation office space was $3,993,448 and $4,055,431 for the years ended December 31, 2013 and 2012, respectively. Lease agreements having an original term of more than one year expire on various dates through 2020. Total future minimum lease payments were as follows at December 31, 2013:

2014	$ 3,173,713
2015	2,466,295
2016	1,946,658
2017	1,343,446
2018	578,375
Thereafter	496,074
Total future minimum lease payments	$ 10,004,561

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 2018. Minimum rental income under leases expiring subsequent to December 31, 2013 is as follows:

2014	$ 242,788
2015	199,216
2016	116,996
2017	90,958
2018	90,958
Thereafter	150,080
Total	$ 890,996

NOTE 14 – EMPLOYEE BENEFIT PLAN

Employee Contribution Plans

Defined Contribution Plan - The Foundation sponsors various defined contribution retirement plans (the "defined contribution plans") covering substantially all of the employees of the Foundation. Participants may contribute a percentage of their compensation on a pretax basis. The Foundation matches a portion of the participants' compensation. Vesting policies are based on the specific defined contribution plan operated either at the National Office or the chartered entity. Total contributions to the defined contribution plans for the years ended December 31, 2013 and 2012 were $1,200,703 and $1,720,387, respectively.

NOTE 14 – EMPLOYEE BENEFIT PLAN - Continued

Deferred Compensation Plan - The National Office maintains a 457(b) nonqualified deferred compensation plan (the "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 deferred compensation plan contributions and designate beneficiaries.

The National Office's contributions totaled $64,673 and $81,730 for the years ended December 31, 2013 and 2012, respectively. All assets under the deferred compensation 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 deferred compensation plan in its statement of financial position. At December 31, 2013 and 2012, the assets and liabilities totaled $381,838 and $487,895, respectively.

Defined Benefit Plan

The Foundation has various defined benefit pension plans (the "Plan") covering certain employees. Benefits are based on years of service and compensation. Contributions are determined in accordance with each Plan's provisions.

The following table illustrates the percentage of fair value of total plan assets for each major category of plan assets for the year ended December 31, 2013 and 2012.

	December 31,	
	2013	2012
Equity	0-66%	0-65%
Debt Securities	0-89%	0-99%
Other	0-100%	0-18%
	100%	100%

The following table sets forth the Plan's funded status and amounts recognized in the Foundation's statement of financial position as part of accrued expenses and other liabilities.

	December 31,	
	2013	2012
Fair value of plan assets at year end	$ 3,369,001	$ 4,229,529
Benefit obligation at year end	4,501,167	5,518,081
Funded Status	$ (1,132,166)	$ (1,288,552)

NOTE 14 – EMPLOYEE BENEFIT PLAN - Continued

Amounts recognized on the statement of financial position consist of:

	2013	2012
Accrued benefit cost	$ (1,132,166)	$ (1,288,552)
Net amount recognized	$ (1,132,166)	$ (1,288,552)

Weighted average assumptions as of the year ended December 31, 2013 and 2012 were:

	December 31, 2013	December 31, 2012
Discount rate	3.2-5.5%	3.7-4.2%
Expected return on plan assets	3.75-8.0%	3.7-8.0%
Rate of compensation increase	4.5-8.0%	5.0-6.0%
Benefit cost	$ 63,624	$ 78,601
Employer contribution	$ 276,654	$ 390,260
Benefits paid	$ 845,040	$ 204,583

The components of net periodic benefit are:

	December 31, 2013	December 31, 2012
Service cost	$ 125,344	$ 103,116
Interest cost	164,595	157,696
Actual return on plan assets	45,886	(139,331)
Amortization of initial unrecognized net obligation of net assets	(2,002)	(2,002)
Amortization of prior service cost	37,737	7,208
Amortization of (gain) loss deferred	(117,962)	84,225
Net periodic pension cost	$ 253,598	$ 210,912

NOTE 14 – EMPLOYEE BENEFIT PLAN - Continued

The following represents the Foundation's estimate of benefit payments for the Plan to be made in the next five years and in the aggregate for the five years thereafter:

Year ended December:	
2013	$ 1,053,448
2014	44,364
2015	43,192
2016	137,932
2017	99,574
Five years thereafter	2,190,042
Total estimated benefit payments for the next ten years	$ 3,568,552

For each chartered entity with a defined benefit plan, the expected long-term rate of return on plan assets assumption, ranging from 4.75 percent to 7.00 percent, was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection of Economic Assumptions for Measuring Pension Obligations. Based on the various Chartered Entities' investment allocation for the pension plan in effect as of the beginning of fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range was selected and added to the real rate of return range to arrive at a best estimate range. A rate which is within the best estimate range was selected.

Management of the Foundation expects to make contributions to the Plan of approximately $349,280 during 2014.

The following is a reconciliation of items not yet reflected in the net periodic benefit cost:

	January 1, 2013	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	December 31, 2013
Unrecognized transition (asset) obligation	$ (7,407)	$ 2,002	$ 1,351	$ (4,054)
Net loss (gain)	$ 1,243,125	$ (104,420)	$ 46,077	$ 1,184,782

The estimated amounts to be reclassified during 2013 as net period benefit amounts include an unrecognized transition asset of $2,002. Additionally, no plan assets are expected to be returned to the Foundation during the 2014 fiscal year.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Foundation has commitments for research awards and grants for future years. The terms of research awards and grants are from one to three years with continuation of grants subject to certain performance requirements. At December 31, 2013, all commitments are expected to be paid in 2014.

The Foundation 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 Foundation's financial condition.

NOTE 16 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2013 financial statements through May 7, 2014, the date that the financial statements were available to be issued.

The Upper Midwest Region has stated its intention to relinquish its charter and become a division of the National Office. This action was approved by the National Office Board of Directors on February 6, 2014 and the agreement is expected to be finalized in the second quarter of 2014.