Financial Statements and Independent Auditors' Report

Arthritis Foundation, Inc. National Office

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

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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, 2013, 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, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 3, 2013. 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, INC.
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	$ 359,158	$ 2,190,529	$ 277,686	$ 2,827,373	$ 5,479,517
Investments	2,512,446	17,241,024	7,848,687	27,602,157	23,123,652
Due from Chartered Entities	4,026,571	953,955	-	4,980,526	2,524,715
Accounts receivable, net	1,833,390	46,516	-	1,879,906	2,365,534
Contributions receivable, net	1,260,486	4,273,331	-	5,533,817	5,898,201
Prepaid expenses and other assets	1,341,777	-	-	1,341,777	1,363,263
Inventory	469,099	-	-	469,099	499,106
Beneficial interests in perpetual trusts	-	-	8,580,756	8,580,756	7,932,996
Property and equipment, net	5,159,802	-	-	5,159,802	5,475,719
Total assets	$ 16,962,729	$ 24,705,355	$ 16,707,129	$ 58,375,213	$ 54,662,703
Liabilities and Net Assets					
Accounts payable	$ 3,234,301	$ -	$ -	$ 3,234,301	$ 3,146,516
Accrued expenses and other liabilities	2,800,620	-	-	2,800,620	3,213,993
Research awards and grants payable	4,206,223	-	-	4,206,223	6,283,803
Liabilities under split interest agreements	-	9,880,769	-	9,880,769	9,825,653
Funds held in trust for Chartered Entities	-	1,169,627	2,962,228	4,131,855	1,053,571
Debt obligations	2,086,565	-	-	2,086,565	2,761,700
Total liabilities	12,327,709	11,050,396	2,962,228	26,340,333	26,285,236
Net assets committed for future research grants	1,560,000	-	-	1,560,000	4,300,000
Other net assets	3,075,020	13,654,959	13,744,901	30,474,880	24,077,467
Total net assets	4,635,020	13,654,959	13,744,901	32,034,880	28,377,467
Total liabilities and net assets	$ 16,962,729	$ 24,705,355	$ 16,707,129	$ 58,375,213	$ 54,662,703

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE
Statement of Activities
Year Ended December 31, 2013 with Summarized Financial Information for the Year Ended December 31, 2012

		Temporarily	Permanently	Totals	
Operating Activities	Unrestricted	Restricted	Restricted	2013	2012
Direct response marketing contributions	$ 12,807,499	$ -	$ -	$ 12,807,499	$ 13,913,615
Chartered Entities share of direct response marketing	(4,126,446)	-	-	(4,126,446)	(4,528,735)
National share of direct response marketing	8,681,053	-	-	8,681,053	9,384,880
Corporate contributions	2,673,725	4,418,492	-	7,092,217	6,632,594
Net assets released from restrictions (corporate)	993,967	(993,967)	-	-	-
Chartered Entities share of corporate contributions	(2,133,602)	-	-	(2,133,602)	(2,258,474)
National share of corporate contributions	1,534,090	3,424,525	-	4,958,615	4,374,120
Bequests/planned giving	58,781	119,900	-	178,681	496,482
Other gifts	162,269	537,600	-	699,869	472,926
Total direct public support	10,436,193	4,082,025	-	14,518,218	14,728,408
Chartered Entities research contributions	-	4,460,048	-	4,460,048	2,550,348
Contributed goods and services	190,126	-	-	190,126	282,250
Total public support	10,626,319	8,542,073	-	19,168,392	17,561,006
Government grants	932,801	-	-	932,801	622,449
Endowment return appropriated for current operations	-	203,263	-	203,263	299,559
Investment income appropriated for current operations	196,264	419,651	-	615,915	634,929
Advertising	5,283,856	-	-	5,283,856	6,292,037
Sales to the public	2,372,041	-	-	2,372,041	2,168,700
Rental income	284,949	-	-	284,949	510,206
Other income and losses	146,602	(202,085)	-	(55,483)	(835,488)
Other external revenue, gains and losses	9,216,513	420,829	-	9,637,342	9,692,392
Contribution share	6,864,703	210,581	-	7,075,284	7,354,111
Bequest share	8,692,006	1,425,475	-	10,117,481	8,890,629
Technology fees - cost recovery	1,936,215	-	-	1,936,215	1,996,732
Sales and service fees - cost recovery	464,446	-	-	464,446	470,673
Arthritis Today - cost recovery	1,133,604	-	-	1,133,604	1,202,731
Total payments from Chartered Entities	19,090,974	1,636,056	-	20,727,030	19,914,876
Net assets released from restrictions	10,598,253	(10,584,303)	(13,950)	-	-
Total revenues, gains and public support	49,532,059	14,655	(13,950)	49,532,764	47,168,274
Expenses					
Research	8,436,051	-	-	8,436,051	10,369,075
Public health education	21,760,123	-	-	21,760,123	24,011,348
Professional education and training	466,110	-	-	466,110	472,648
Patient and community services	6,242,106	-	-	6,242,106	7,625,258
Fundraising	5,355,140	-	-	5,355,140	5,875,404
Management and general	6,077,440	-	-	6,077,440	6,432,665
Total expenses	48,336,970	-	-	48,336,970	54,786,398
Change in net assets from operating activities	1,195,089	14,655	(13,950)	1,195,794	(7,618,124)
Non-operating Activities					
Endowment return over spending policy	-	776,455	-	776,455	300,105
Unrealized and realized (losses) gains on investments other than endowment	(69,454)	1,802,168	-	1,732,714	1,307,171
Unrealized gains on beneficial interest in perpetual trusts	-	-	647,760	647,760	629,700
Change in valuation of split interest agreements	-	(695,310)	-	(695,310)	(926,725)
Change in net assets from non-operating activities	(69,454)	1,883,313	647,760	2,461,619	1,310,251
Change in net assets	1,125,635	1,897,968	633,810	3,657,413	(6,307,873)
Net assets, beginning of year	3,509,385	11,756,991	13,111,091	28,377,467	34,685,340
Net assets, end of year	$ 4,635,020	$ 13,654,959	$ 13,744,901	$ 32,034,880	$ 28,377,467

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
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
Expenses										
Research grants and awards	$ 5,812,640	$ 223,593	$ 1,800	$ 41,020	$ 6,079,053	$ 10,814	$ 3,485	$ 14,299	$ 6,093,352	$ 7,774,686
Salaries	1,010,451	3,785,611	159,516	1,445,422	6,401,000	1,538,536	3,108,973	4,647,509	11,048,509	12,649,769
Payroll taxes	69,662	281,730	12,543	108,246	472,181	110,612	218,696	329,308	801,489	883,968
Employee benefits	142,401	566,675	25,741	220,812	955,629	192,882	453,571	646,453	1,602,082	1,928,888
Advertising commissions	-	256,851	-	246,782	503,633	-	-	-	503,633	643,360
Data processing and accounting services	86,832	453,358	28,693	236,841	805,724	72,996	555,484	628,480	1,434,204	1,298,750
Professional fees and contract services	364,148	3,281,301	41,374	820,651	4,507,474	207,526	536,382	743,908	5,251,382	5,998,057
Professional services - contributed	174,916	-	-	-	174,916	11,408	3,802	15,210	190,126	282,250
Supplies	13,141	82,229	1,539	22,429	119,338	14,894	21,044	35,938	155,276	179,549
Printing, publications, and artwork	10,724	1,050,899	3,376	739,370	1,804,369	32,160	6,914	39,074	1,843,443	2,227,551
Materials expenses	9,674	204,958	3,410	175,155	393,197	99,957	11,798	111,755	504,952	449,506
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
Corporate direct	20,792	72,773	7,426	10,396	111,387	28,218	8,911	37,129	148,516	167,562
Fulfillment	-	295,609	-	284,209	579,818	-	-	-	579,818	724,983
Postage, shipping, and delivery	10,135	1,141,096	1,176	997,525	2,149,932	15,168	25,270	40,438	2,190,370	2,132,861
Telephone	30,386	79,098	19,093	42,474	171,051	54,817	317,441	372,258	543,309	607,891
Occupancy	68,003	153,911	3,579	50,107	275,600	39,370	42,949	82,319	357,919	409,407
Insurance	38,963	88,180	2,051	28,710	157,904	22,558	24,608	47,166	205,070	173,769
Staff travel	52,489	139,805	3,240	62,981	258,515	137,943	61,560	199,503	458,018	565,009
Volunteer travel and leadership development	44,932	221,901	1,735	42,166	310,734	50,123	54,777	104,900	415,634	570,888
Meeting and conferences	7,341	253,226	455	154,357	415,379	8,222	13,228	21,450	436,829	522,122
Equipment lease and maintenance	29,531	66,573	20,271	41,776	158,151	45,225	344,649	389,874	548,025	576,210
Membership dues and subscriptions	23,651	66,592	1,798	12,939	104,980	24,517	29,679	54,196	159,176	203,178
Advertising	2,100	324,224	750	101,292	428,366	54,647	5,471	60,118	488,484	839,153
Miscellaneous	102,382	174,621	4,119	58,689	339,811	44,626	63,673	108,299	448,110	412,349
Depreciation	73,662	166,708	3,877	54,277	298,524	42,646	46,524	89,170	387,694	412,308
Uncollectible receivables	-	56,007	-	53,804	109,811	-	-	-	109,811	254,940
Total expenses	$ 8,436,051	$ 21,760,123	$ 466,110	$ 6,242,106	$ 36,904,390	$ 5,355,140	$ 6,077,440	$ 11,432,580	$ 48,336,970	$ 54,786,398

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
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	$ 3,657,413	$ (6,307,873)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	387,694	412,308
Net unrealized gains on beneficial interests in perpetual trusts	(647,760)	(629,700)
Net realized and unrealized gains on investments	(2,645,228)	(1,778,638)
Net change in valuation of split interest agreements	695,310	926,725
Writedown from software impairment	-	1,277,473
Changes in assets and liabilities:		
Due from Chartered Entities	(2,455,811)	2,308,068
Accounts receivable	485,628	360,724
Contributions receivable	364,384	754,368
Prepaid expenses and other assets	21,486	238,251
Inventory	30,007	(68,200)
Accounts payable	87,785	(141,534)
Accrued expenses and other liabilities	(413,373)	67,082
Research awards and grants payable	(2,077,580)	447,198
Liabilities under split interest agreements	(640,194)	(800,610)
Funds held in trust for Chartered Entities	3,078,284	(169,236)
Net cash used in operating activities	(71,955)	(3,103,594)
Cash flows from investing activities:		
Purchase of property and equipment	(71,777)	(193,354)
Purchase of investments	(8,344,657)	(8,333,162)
Proceeds from sale of investments	6,511,380	8,569,322
Net cash (used in) provided by investing activities	(1,905,054)	42,806
Cash flows from financing activities:		
Payments on long-term debt	(400,000)	(400,000)
Payments on capital lease obligations	(275,135)	(338,147)
Net cash used in financing activities	(675,135)	(738,147)
Net decrease in cash and cash equivalents	(2,652,144)	(3,798,935)
Cash and cash equivalents at beginning of year	5,479,517	9,278,452
Cash and cash equivalents at end of year	$ 2,827,373	$ 5,479,517
Supplemental data:		
Interest paid by National Office	$ 158,315	$ 104,835

The accompanying notes are an integral part of this statement.

NOTE 1 – DESCRIPTION OF ORGANIZATION

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Accrual Basis of Accounting – The financial statements of the National Office have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Basis of Presentation – The National Office classifies its net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the National Office and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the National Office and/or the passage of time.

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

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Operating results in the statement of activities reflect all transactions increasing and decreasing net assets except those that the National Office defines as non-operating. Non-operating includes all endowment returns in excess of the spending policy, unrealized gains and losses from operating accounts, unrealized gains and losses on beneficial interest in perpetual trusts and changes in valuation of split interest agreements.

Income Taxes – The National Office is a not-for-profit corporation and has been recognized as exempt from Federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code ("IRC"). At times the National Office may be engaged in certain activities for which it is responsible for payment of unrelated business income tax. Deferred tax assets and liabilities are measured based on enacted tax laws and rates expected to apply to taxable income in the year in which temporary differences are expected to be recorded or settled. Income taxes did not have a material impact on the financial position or results of operations of the National Office as of and for the years ended December 31, 2013 and 2012.

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, 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.

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 National Office's uninsured cash balance was approximately $2,000,000. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 – 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 National Office receives certain planned gift donations that benefit not only the National Office but also another beneficiary designated by the donor.

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.

Charitable Remainder Trusts (“CRTs”) – The National Office has CRTs where the National Office is not the trustee. These CRTs 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. CRTs are reported at fair value with the changes reported as temporarily restricted net assets in the statement of activities.

Charitable Gift Annuities and CRTs (National Office is the trustee) – The National Office holds the remainder interest in gift annuities and CRTs where it is the trustee. The assets are reported on the statement of financial position and are valued at estimated fair value. Liabilities under these split interest agreements, which are $9,880,769 and $9,825,653 for December 31, 2013 and 2012, 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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 entities. 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 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.

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:

	2013	2012
Membership/direct response marketing share	$ 3,364,534	$ 3,368,949
Organization-wide corporate contribution share	826,888	852,795
Contribution share	7,075,284	7,354,111
Bequest share	10,117,481	8,890,629
	$ 21,384,187	$ 20,466,484

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:

	2013	2012
Membership/direct response marketing share	$ 11,194,965	$ 11,832,842
Corporate contributions	2,960,490	3,111,269
Awards and grants	277,474	100,500
	$ 14,432,929	$ 15,044,611

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 $7,238,250 and $7,605,294 in 2013 and 2012, respectively.

NOTE 3 – RELATED PARTY TRANSACTIONS - Continued

Amounts due to and from the chartered entities at year end arise as a result of transactions occurring between the entities throughout the year. The National Office has the ability to net amounts due to the Regions with amounts due from the Regions, thus are combined and presented as either due to or from the National Office on the statement of financial position. At December 31, 2013 and 2012, the amount due to the National Office was $4,980,526 and $2,524,715, respectively. The National Office considers this to be fully collectible.

NOTE 4 – INVESTMENTS

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

	2013	2012
Marketable securities		
U.S. Government securities	$ 465,139	$ 933,692
Corporate notes and bonds	2,093,964	1,911,779
Domestic equity mutual funds	8,222,430	4,715,514
Fixed income mutual funds	481,100	1,496,654
International equity mutual funds	2,008,940	889,835
	13,271,573	9,947,474
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	6,565,509
Fixed income mutual funds	4,607,906	4,224,818
International equity mutual funds	2,042,674	1,909,405
	14,323,458	13,159,021
Total marketable securities	27,595,031	23,106,495
Certificates of deposit	7,126	17,157
Total investments	$ 27,602,157	$ 23,123,652

NOTE 4 – INVESTMENTS - Continued

The following summarizes the National Office's total investment return for the years ending December 31, 2013 and 2012 and the classification in the statement of activities:

	December 31, 2013		
	Unrestricted	Temporarily Restricted	Total
Dividend and interest income	$ 196,264	$ 486,855	$ 683,119
Net realized (losses) gains	(40,624)	400,036	359,412
Net unrealized (losses) gains	(28,830)	2,314,646	2,285,816
Total investment return	$ 126,810	$ 3,201,537	$ 3,328,347
Amounts as shown on the Statement of Activities:			
Endowment return appropriated for current operations	-	203,263	203,263
Investment income appropriated for current operations	196,264	419,651	615,915
Endowment return over spending policy	-	776,455	776,455
Unrealized and realized (losses) gains on investments other than endowment	(69,454)	1,802,168	1,732,714
Total investment return	$ 126,810	$ 3,201,537	$ 3,328,347

	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
Amounts as shown on the Statement of Activities:			
Endowment return appropriated for current operations	-	299,559	299,559
Investment income appropriated for current operations	161,171	473,758	634,929
Endowment return over spending policy	-	300,105	300,105
Unrealized and realized gains on investments other than endowment	59,363	1,247,808	1,307,171
Total investment return	$ 220,534	$ 2,321,230	$ 2,541,764

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 - Quoted prices for identical instruments in active markets. This category includes domestic and international equity mutual funds and fixed income mutual funds 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.

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 for which the National Office is not the trustee. These trusts are valued based on the market value of the underlying securities as provided by the trustee.

Quantitative information related to Level III 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.

NOTE 5 – FAIR VALUE MEASUREMENTS - Continued

The following tables summarize the valuation of the National Office's marketable securities, CRTs and beneficial interest in perpetual trusts by the above hierarchy levels as of December 31, 2013 and 2012:

	Fair value measurement December 31, 2013			
	Level I	Level II	Level III	Total
U.S. Government securities	$ 265,731	$ 463,652	$ -	$ 729,383
Corporate notes and bonds				
Real estate industry	-	167,521	-	167,521
Financial services industry	-	935,896	-	935,896
Other	-	1,158,068	-	1,158,068
Domestic equity mutual funds	15,463,543	-	-	15,463,543
Fixed income mutual funds	5,089,006	-	-	5,089,006
International equity mutual funds	4,051,614	-	-	4,051,614
Total marketable securities	24,869,894	2,725,137	-	27,595,031
CRTs	-	-	1,315,693	1,315,693
Beneficial interest in perpetual trusts	-	-	8,580,756	8,580,756
Total	$24,869,894	$ 2,725,137	$ 9,896,449	$37,491,480

	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	2,799,240	-	-	2,799,240
Total marketable securities	20,081,326	3,025,169	-	23,106,495
CRTs	-	-	1,216,927	1,216,927
Beneficial interest in perpetual trusts	-	-	7,932,996	7,932,996
Total	$20,081,326	$ 3,025,169	$ 9,149,923	$32,256,418

NOTE 5 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the National Office's Level III reconciliation for the years ended December 31, 2013 and 2012:

	2013	2012
Beginning balance	$ 9,149,923	$ 8,453,609
Increase in CRTs	98,766	66,614
Net unrealized gain	647,760	629,700
Ending balance	$ 9,896,449	$ 9,149,923

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, 2013 and 2012.

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.

NOTE 6 – ENDOWMENTS - Continued

The composition of donor restricted endowment and the changes in endowment net assets as of December 31, 2013 and 2012 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2012	$ 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
Investment Return:			
Income	67,204	-	67,204
Net appreciation/depreciation (realized and unrealized)	912,514	-	912,514
Total investment return	979,718	-	979,718
Appropriation of endowment assets for expenditure	(203,263)	(13,950)	(217,213)
Endowment net assets, December 31, 2013	$1,287,393	$ 5,164,145	$ 6,451,538

NOTE 7 – CONTRIBUTIONS RECEIVABLE

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

	2013	2012
Amounts due:		
In less than one year	$ 3,935,177	$ 3,749,791
In one to five years	890,000	1,174,168
Gross contributions receivable	4,825,177	4,923,959
Allowance for doubtful accounts	(565,225)	(231,148)
CRTs	1,315,693	1,216,927
Unamortized present value discount	(41,828)	(11,537)
Net contributions receivable	$ 5,533,817	$ 5,898,201

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

NOTE 8 – SPLIT INTEREST AGREEMENTS

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

	2013	2012
CRTs (Arthritis Foundation is the trustee)	$ 3,421,989	$ 3,077,904
Gift annuity fund	10,462,774	9,663,956
Pooled income fund	438,695	417,161
Split interest agreements (included in investments)	14,323,458	13,159,021
CRTs (included in contributions receivable - Arthritis Foundation is not the trustee)	1,315,693	1,216,927
Perpetual trusts (Arthritis Foundation is not the trustee)	8,580,756	7,932,996
	$ 24,219,907	$ 22,308,944

NOTE 9 – PROPERTY AND EQUIPMENT

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

	estimated useful life	2013	2012
Land		$ 2,400,000	$ 2,400,000
Building and improvements	(10-30 years)	7,293,605	7,285,705
Leasehold improvements	(3-10 years)	239,198	239,198
Furniture and other equipment	(3-5 years)	1,852,217	1,788,341
		11,785,020	11,713,244
Accumulated depreciation		(6,625,218)	(6,237,525)
Net property and equipment		$ 5,159,802	$ 5,475,719

Depreciation expense was $387,694 and $412,308 for the years ended December 31, 2013 and 2012, respectively.

NOTE 10 – ACCRUED EXPENSES AND OTHER LIABILITIES

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

	2013	2012
Wages	$ 395,931	$ 546,599
Payroll taxes and other related liabilities	368,353	487,170
Deferred subscription revenue	1,387,165	1,316,003
Deferred compensation plan	381,838	487,895
Other	267,333	376,326
Total accrued expenses and other liabilities	$ 2,800,620	$ 3,213,993

NOTE 11 – DEBT OBLIGATIONS

The National Office has leased various assets, primarily office equipment, with lease terms approximating the useful lives of the assets. As a result, the present value of the remaining future minimum lease payments are recorded as capitalized lease assets and related notes payable. Assets under capital leases (net of accumulated depreciation) at December 31, 2013 and 2012 were $73,452 and $122,079, respectively, and are included in property and equipment on the statement of financial position.

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 2012, management suspended development on a computer software system. Payments are still being made on this asset in accordance with the original terms.

Future minimum lease payments under capital lease are as follows:

For the years ending December 31,	
2014	$ 264,924
2015	230,083
2016	2,100
Total future minimum lease payments	497,107
Less amounts representing interest	(10,542)
Present value of net minimum lease payments	$ 486,565

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.

The National Office has a line of credit with a local bank in the amount of $6,300,000. No amounts were outstanding on this line of credit at December 31, 2013.

NOTE 11 – DEBT OBLIGATIONS - Continued

Long-term debt matures as follows:

For the years ending December 31,	
2014	$ 500,000
2015	500,000
2016	600,000
Total bond payable	1,600,000
Capital lease obligations	486,565
Total debt obligations	$ 2,086,565

NOTE 12 – JOINT COSTS

In 2013 and 2012, the National Office incurred joint costs of $11,431,739 and $11,897,434 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, 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
Other	663,870	656,690
Total	$ 11,431,739	$ 11,897,434

NOTE 13 – 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	$ 3,610,078	$ 3,919,200
Research	3,839,284	2,519,010
Use in future periods	6,205,597	5,318,781
Total temporarily restricted net assets	$ 13,654,959	$ 11,756,991

NOTE 13 – NET ASSETS - Continued

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 the following:

	2013	2012
Research, specific projects and operations	$ 5,164,145	$ 5,178,095
Beneficial interest in perpetual trusts	8,580,756	7,932,996
Total permanently restricted net assets	$ 13,744,901	$ 13,111,091

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

	2013	2012
Programs	$ 4,813,388	$ 5,120,130
Research	5,770,915	4,971,935
Use in future periods	993,967	880,138
Total temporarily restricted net assets released from restriction	$ 11,578,270	$ 10,972,203

NOTE 14 – OPERATING LEASES

The National Office has various operating leases for equipment and office space. Rental expense under these lease agreements was $423,021 and $456,430 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 2021.

NOTE 14 – OPERATING LEASES - Continued

Future minimum annual lease payments are as follows:

For the years ending December 31,	
2014	$ 344,820
2015	242,424
2016	136,561
2017	107,219
2018	107,219
Thereafter	232,307
Total future minimum lease payments	$ 1,170,550

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 2021. Minimum rental income under leases expiring subsequent to December 31, 2013 is as follows:

For the years ending December 31,	
2014	$ 242,788
2015	199,216
2016	116,996
2017	90,958
2018	90,958
Thereafter	150,080
Total future minimum rental income	$ 890,996

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 two 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, 2013 and 2012 were $598,979 and $860,224, respectively. On January 1, 2014, in an effort to reduce expenses, the National Office suspended employer contributions to the Plan.

NOTE 15 – EMPLOYEE BENEFIT PLAN - Continued

The National Office maintains a 457(b) nonqualified deferred compensation plan that permits a select group of executive level employees to set aside a portion of salary on a before-tax basis. In addition to voluntary elective deferrals, the National Office makes non-elective contributions to the plan. At the discretion of the National Office, participants are allowed to allocate plan contributions and designate beneficiaries. The National Office's contributions totaled $64,673 and $81,730 for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, the assets and liabilities each totaled $381,838 and $487,895, respectively.

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 $1,560,000 for 2014.

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 in the prior year.

NOTE 18 – SUBSEQUENT EVENTS

The National Office 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.