Financial Statements and Independent Auditors’ Report

Arthritis Foundation, Inc. National Office

Year Ended December 31, 2014
(with Summarized Financial Information for the
Year Ended December 31, 2013)

Metcalf Davis
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Independent Auditors' Report

Board of Directors
Arthritis Foundation, Inc. National Office

We have audited the accompanying financial statements of the Arthritis Foundation, Inc. National Office (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2014, 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 7, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Metcalf Davis

Atlanta, Georgia
May 11, 2015

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE
Statement of Financial Position
December 31, 2014 with Summarized Financial Information as of December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2014	Totals 2013
Assets					
Cash and cash equivalents	$ 1,502,028	$ 7,011,241	$ 985,653	$ 9,498,922	$ 2,827,373
Investments	5,226,795	16,669,109	7,663,132	29,559,036	27,602,157
Due from chartered entities, net	1,661,126	974,699	-	2,635,825	4,980,526
Accounts receivable, net	1,784,360	82,495	-	1,866,855	1,879,906
Contributions receivable, net	2,973,046	4,611,456	-	7,584,502	5,533,817
Prepaid expenses and other assets	1,092,244	-	-	1,092,244	1,341,777
Inventory	405,745	-	-	405,745	469,099
Beneficial interests in perpetual trusts	-	-	8,916,990	8,916,990	8,580,756
Property and equipment, net	5,434,993	-	-	5,434,993	5,159,802
Total assets	$ 20,080,337	$ 29,349,000	$ 17,565,775	$ 66,995,112	$ 58,375,213
Liabilities and Net Assets					
Accounts payable	$ 2,051,280	$ -	$ -	$ 2,051,280	$ 3,234,301
Accrued expenses and other liabilities	3,211,829	-	-	3,211,829	2,800,620
Research awards and grants payable	4,223,566	-	-	4,223,566	4,206,223
Liabilities under split interest agreements	-	9,372,213	-	9,372,213	9,880,769
Funds held in trust for Chartered Entities	-	1,030,040	2,696,923	3,726,963	4,131,855
Debt obligations	1,422,986	-	-	1,422,986	2,086,565
Total liabilities	10,909,661	10,402,253	2,696,923	24,008,837	26,340,333
Net assets committed for future research grants	1,200,000	-	-	1,200,000	1,560,000
Other net assets	7,970,676	18,946,747	14,868,852	41,786,275	30,474,880
Total net assets	9,170,676	18,946,747	14,868,852	42,986,275	32,034,880
Total liabilities and net assets	$ 20,080,337	$ 29,349,000	$ 17,565,775	$ 66,995,112	$ 58,375,213

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE
Statement of Activities
Year Ended December 31, 2014 with Summarized Financial Information for the Year Ended December 31, 2013

Operating Activities	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2014	Totals 2013
Direct response marketing contributions	$ 12,031,610	$ -	$ -	$ 12,031,610	$ 12,807,499
Chartered Entities share of direct response marketing	(3,188,534)	-	-	(3,188,534)	(4,126,446)
National share of direct response marketing	8,843,076	-	-	8,843,076	8,681,053
Corporate contributions	4,377,774	4,673,111	-	9,050,885	7,092,217
Net assets released from restrictions (corporate)	909,509	(909,509)	-	-	-
Chartered Entities share of corporate contributions	(2,320,644)	-	-	(2,320,644)	(2,133,602)
National share of corporate contributions	2,966,639	3,763,602	-	6,730,241	4,958,615
Bequests/planned giving	548,525	852,451	-	1,400,976	178,681
Special events	2,384,355	-	-	2,384,355	36,467
Less: direct benefit costs	(375,007)	-	-	(375,007)	(2,408)
Personal major gifts	235,108	155,002	200,000	590,110	89,694
Personal annual gifts	126,147	29,250	-	155,397	33,685
Foundations	32,396	1,256,771	-	1,289,167	526,600
Other gifts	119,143	23,784	-	142,927	15,831
Total direct public support	14,880,382	6,080,860	200,000	21,161,242	14,518,218
Chartered Entities research contributions	-	3,046,431	-	3,046,431	4,460,048
Contributed goods and services	-	-	-	-	190,126
Total public support	14,880,382	9,127,291	200,000	24,207,673	19,168,392
Government grants	1,297,350	-	-	1,297,350	932,801
Endowment return appropriated for current operations	-	232,338	-	232,338	203,263
Investment income appropriated for current operations	195,668	609,759	-	805,427	615,915
Advertising	4,709,078	-	-	4,709,078	5,283,856
Sales to the public	2,394,461	-	-	2,394,461	2,372,041
Rental income	228,421	-	-	228,421	284,949
Other income and losses	137,964	(110,333)	-	27,631	(55,483)
Other external revenue, gains and losses	8,962,942	731,764	-	9,694,706	9,637,342
Contribution share	5,670,214	89,773	-	5,759,987	7,075,284
Bequest share	10,731,175	863,407	-	11,594,582	10,117,481
Technology fees - cost recovery	1,879,136	-	-	1,879,136	1,936,215
Sales and service fees - cost recovery	383,059	-	-	383,059	464,446
Arthritis Today - cost recovery	1,100,843	-	-	1,100,843	1,133,604
Total payments from Chartered Entities	19,764,427	953,180	-	20,717,607	20,727,030
Change in interpretation of agreement	257,744	-	(257,744)	-	-
Net assets released from restrictions	8,349,963	(8,349,963)	-	-	-
Total revenues, gains and public support	52,215,458	2,462,272	(57,744)	54,619,986	49,532,764
Expenses					
Research	9,084,004	-	-	9,084,004	8,436,051
Public health education	19,961,990	-	-	19,961,990	21,760,123
Professional education and training	497,710	-	-	497,710	466,110
Patient and community services	6,785,714	-	-	6,785,714	6,242,106
Fundraising	5,169,137	-	-	5,169,137	5,355,140
Management and general	6,056,790	-	-	6,056,790	6,077,440
Total expenses	47,555,345	-	-	47,555,345	48,336,970
Change in net assets from operating activities	4,660,113	2,462,272	(57,744)	7,064,641	1,195,794

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE
Statement of Activities - continued
Year Ended December 31, 2014 with Summarized Financial Information for the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2014	Totals 2013
Non-operating Activities					
Endowment return (under) over spending policy	$ -	$ (24,295)	$ -	$ (24,295)	$ 776,455
Unrealized and realized (losses) gains on investments other than endowment	(52,067)	488,470	-	436,403	1,732,714
Unrealized (losses) gains on beneficial interest in perpetual trusts	-	-	(362,150)	(362,150)	647,760
Net assets acquired from the Southeast Region and the Upper Midwest Region	(72,390)	2,853,057	1,543,845	4,324,512	-
Change in valuation of split interest agreements	-	(487,716)	-	(487,716)	(695,310)
Change in net assets from non-operating activities	(124,457)	2,829,516	1,181,695	3,886,754	2,461,619
Change in net assets	4,535,656	5,291,788	1,123,951	10,951,395	3,657,413
Net assets, beginning of year	4,635,020	13,654,959	13,744,901	32,034,880	28,377,467
Net assets, end of year	$ 9,170,676	$ 18,946,747	$ 14,868,852	$ 42,986,275	$ 32,034,880

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE

Statement of Functional Expenses

Year Ended December 31, 2014 with Summarized Financial Information for the Year Ended December 31, 2013

	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	2014	2013
Expenses										
Research grants and awards	$ 6,924,298	$ 81,319	$ 139	$ 36,028	$ 7,041,784	$ 834	$ 700	$ 1,534	7,043,318	$ 6,093,352
Salaries	906,652	4,296,600	189,095	1,784,913	7,177,260	1,612,104	3,077,777	4,689,881	11,867,141	11,048,509
Payroll taxes	65,657	329,782	14,577	141,673	551,689	122,415	220,559	342,974	894,663	801,489
Employee benefits	73,591	447,072	19,447	224,725	764,835	157,422	286,942	444,364	1,209,199	1,602,082
Advertising commissions	-	185,807	-	181,256	367,063	-	-	-	367,063	503,633
Data processing and accounting services	59,661	447,620	23,396	216,134	746,811	62,272	558,033	620,305	1,367,116	1,434,204
Professional fees and contract services	197,563	2,743,232	40,236	793,517	3,774,548	196,700	546,207	742,907	4,517,455	5,251,382
Professional services - contributed	-	-	-	-	-	-	-	-	-	190,126
Supplies	25,014	82,898	2,269	41,922	152,103	25,312	30,333	55,645	207,748	155,276
Printing, publications, and artwork	17,595	1,008,818	8,918	708,222	1,743,553	63,709	15,586	79,295	1,822,848	1,843,443
Materials expenses	1,849	173,680	1,345	166,412	343,286	99,557	11,304	110,861	454,147	504,952
Membership/direct response marketing	248,515	6,956,066	124,258	192,599	7,521,438	2,089,707	142,896	2,232,603	9,754,041	11,431,739
Specific assistance to individuals	-	-	-	50,030	50,030	-	-	-	50,030	-
Corporate direct	-	-	-	-	-	-	-	-	-	148,516
Fulfillment	535	307,544	268	296,293	604,640	424	313	737	605,377	579,818
Postage, shipping, and delivery	11,298	1,218,272	2,391	1,035,465	2,267,426	37,561	22,157	59,718	2,327,144	2,190,370
Telephone	22,250	72,946	17,307	44,845	157,348	56,790	343,392	400,182	557,530	543,309
Occupancy	67,516	258,853	5,188	111,132	442,689	79,704	68,097	147,801	590,490	357,919
Insurance	34,632	105,645	2,161	35,741	178,179	28,532	28,871	57,403	235,582	205,070
Staff travel	54,295	215,008	7,148	97,972	374,423	179,706	91,586	271,292	645,715	458,018
Volunteer travel and leadership development	73,123	165,645	7,659	81,318	327,745	66,414	52,422	118,836	446,581	415,634
Meeting and conferences	109,010	223,995	2,392	230,957	566,354	30,671	26,784	57,455	623,809	436,829
Equipment lease and maintenance	27,983	88,318	19,467	53,354	189,122	55,212	395,004	450,216	639,338	548,025
Membership dues and subscriptions	23,548	49,767	1,750	16,470	91,535	20,964	25,780	46,744	138,279	159,176
Advertising	-	120,990	6	100,649	221,645	63,736	6,536	70,272	291,917	488,484
Miscellaneous	73,168	165,075	4,290	56,993	299,526	71,077	52,645	123,722	423,248	448,110
Depreciation	66,251	188,639	4,003	59,307	318,200	48,314	52,866	101,180	419,380	387,694
Uncollectible receivables	-	28,399	-	27,787	56,186	-	-	-	56,186	109,811
Total expenses	$ 9,084,004	$ 19,961,990	$ 497,710	$ 6,785,714	$ 36,329,418	$ 5,169,137	$ 6,056,790	$ 11,225,927	$ 47,555,345	$ 48,336,970

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, INC.
NATIONAL OFFICE
Statement of Cash Flows
Year Ended December 31, 2014 with Summarized Financial Information as of December 31, 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 10,951,395	$ 3,657,413
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	419,380	387,694
Net unrealized losses (gains) on beneficial interests in perpetual trusts	362,150	(647,760)
Net realized and unrealized gains on investments	(561,781)	(2,645,228)
Changes in assets and liabilities:		
Due from Chartered Entities	2,344,701	(2,455,811)
Accounts receivable	13,051	485,628
Contributions receivable	(2,050,685)	364,384
Prepaid expenses and other assets	249,533	21,486
Inventory	63,354	30,007
Accounts payable	(1,183,021)	87,785
Accrued expenses and other liabilities	411,209	(413,373)
Research awards and grants payable	17,343	(2,077,580)
Liabilities under split interest agreements	(508,556)	55,116
Funds held in trust for Chartered Entities	(404,892)	3,078,284
Net cash provided by (used in) operating activities	10,123,181	(71,955)
Cash flows from investing activities:		
Purchase of property and equipment	(781,868)	(71,777)
Disposal of property and equipment	87,296	-
Purchase of investments	(13,664,802)	(8,344,657)
Proceeds from sale of investments	11,571,321	6,511,380
Net cash used in investing activities	(2,788,053)	(1,905,054)
Cash flows from financing activities:		
Payments on long-term debt	(383,047)	(400,000)
Payments on capital lease obligations	(280,532)	(275,135)
Net cash used in financing activities	(663,579)	(675,135)
Net increase (decrease) in cash and cash equivalents	6,671,549	(2,652,144)
Cash and cash equivalents at beginning of year	2,827,373	5,479,517
Cash and cash equivalents at end of year	$ 9,498,922	$ 2,827,373
Supplemental data:		
Interest paid by National Office	$ 85,486	$ 158,315
Net assets acquired from the Southeast Region and the Upper Midwest Region (see note 3)		
Fair value of assets acquired	$ 5,932,125	
Liabilities assumed	(1,607,613)	
	4,324,512	

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.

On May 1, 2014, the National Office acquired the assets and liabilities along with the service responsibilities for the areas covered by the former Arthritis Foundation, Inc. Southeast Region (the “Southeast Region”) and the Arthritis Foundation, Inc., Upper Midwest Region (the “Upper Midwest Region”). Through these acquisitions, further described in note 3, the National Office seeks to achieve additional economies of scale and other synergies by integrating its service offerings with those provided by the Regions and centralizing certain administrative functions.

On January 1, 2015, the National Office received the charter agreements that were relinquished by the Arthritis Foundation, Inc., Mid-Atlantic Region (the “Mid-Atlantic Region”) and the Arthritis Foundation, Inc., Florida Chapter (the “Florida Chapter”). Both entities have continued to operate as divisions of the National Office, but the National Office acquired the assets and liabilities of both the Mid-Atlantic Region and the Florida Chapter.

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”).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

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, 2014 and 2013, the National Office's uninsured cash balance was approximately $6,900,000 and $2,000,000, respectively. 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 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 60 days after billing.

Allowance for Doubtful Accounts – An 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. Amounts are considered past due if they are not received within one year after the expected payment date.

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

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.

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 Interests 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 10 percent. CRTs are reported at fair value with the changes reported as change in valuation of split-interest agreements in the temporarily restricted net asset class in the statement of activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 $9,372,213 and $9,880,769 for December 31, 2014 and 2013, 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.

Contributed Goods and Services – Contributed goods and services are reflected as both contribution revenue and expenses if they meet the criteria defined by GAAP 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 at the date of donation.

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, 2013, from which the summarized financial information was derived.

Reclassifications **–** Certain reclassifications have been made to the 2013 balances to conform to the 2014 presentation.

NOTE 3 – ACQUISITION OF THE SOUTHEAST & UPPER MIDWEST REGIONS

On May 1, 2014, the former Southeast and Upper Midwest Regions' assets and liabilities were acquired by the National Office along with all operational responsibilities in the regions covered by these two Regions in order to achieve operational synergies. The transfer of assets and liabilities of the former Southeast Region and Upper Midwest Region was recorded under the acquisition method for not-for-profit entities as described by GAAP, resulting in an inherent contribution to the National Office, with no cash transferred between the Regions and the National Office. Under these standards the assets acquired and the liabilities assumed are reported at their fair value on the date of the transaction with the net assets acquired recorded on the Statement of Activities as "*Net assets acquired from the Southeast Region and the Upper Midwest Region.*"

NOTE 3 – ACQUISITION OF THE SOUTHEAST & UPPER MIDWEST REGIONS - Continued

The following is a summary of the assets and liabilities (stated at fair value) of the Southeast Region that was transferred to the National Office at the date of acquisition under the terms of the agreement.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Assets				
Cash and cash equivalents	$ 723,938	$ -	$ -	$ 723,938
Due to/from other funds	(1,221,031)	1,221,031	-	-
Investments	-	34,336	-	34,336
Contributions receivable	1,663,050	425,527	-	2,088,577
Prepaid expenses and other assets	17,035	-	-	17,035
Property and equipment, net	80,434	-	-	80,434
Funds held in trust by others	-	80,263	111,097	191,360
Beneficial interests in perpetual trusts	-	-	322,803	322,803
Total assets	1,263,426	1,761,157	433,900	3,458,483
Liabilities				
Accounts payable	17,037	6,523	-	23,560
Accrued expenses and other liabilities	229,589	-	-	229,589
Capital leases payable	78,008	-	-	78,008
Notes payable	40,000	-	-	40,000
Deferred revenue	116,881	-	-	116,881
Due to National Office	1,002,931	-	-	1,002,931
Total liabilities	1,484,446	6,523	-	1,490,969
Net assets acquired from the Southeast Region	$ (221,020)	$ 1,754,634	$ 433,900	$ 1,967,514

NOTE 3 – ACQUISITION OF THE SOUTHEAST & UPPER MIDWEST REGIONS - Continued

The following is a summary of the assets and liabilities (stated at fair value) of the Upper Midwest Region that was transferred to the National Office at the date of acquisition under the terms of the agreement.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Assets				
Cash and cash equivalents	$ 131,459	$ -	$ -	$ 131,459
Investments	50,311	1,013,384	476,619	1,540,314
Due from National Office	18,068	-	-	18,068
Contributions receivable	17,216	85,039	-	102,255
Prepaid expenses	3,525	-	-	3,525
Property and equipment, net	44,695	-	-	44,695
Beneficial interests in perpetual trusts	-	-	633,326	633,326
Total assets	265,274	1,098,423	1,109,945	2,473,642
Liabilities				
Accrued expenses and other liabilities	46,632	-	-	46,632
Deferred rent	70,012	-	-	70,012
Total liabilities	116,644	-	-	116,644
Net assets acquired from the Upper Midwest Region	$ 148,630	$ 1,098,423	$ 1,109,945	$ 2,356,998

NOTE 4 – 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:

	2014	2013
Membership/direct response marketing share	$ 2,950,100	$ 3,364,534
Organization-wide corporate contribution share	858,173	826,888
Contribution share	5,759,987	7,075,284
Bequest share	11,594,582	10,117,481
	$ 21,162,842	$ 21,384,187

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:

	2014	2013
Membership/direct response marketing share	$ 9,821,817	$ 11,194,965
Corporate contributions	3,178,420	2,960,490
Awards and grants	98,766	277,474
	$ 13,099,003	$ 14,432,929

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 $7,046,221 and $7,238,250 in 2014 and 2013, respectively.

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, 2014 and 2013, the amount due to the National Office was $2,635,825 and $4,980,526, respectively. The National Office considers this to be fully collectible.

NOTE 5 – INVESTMENTS

Investments at December 31, 2014 and 2013 were as follows:

	2014	2013
Marketable securities		
Investment accounts		
U.S. Government securities	$ 2,844,290	$ 465,139
Corporate notes and bonds	2,637,146	2,093,964
Domestic equity mutual funds	6,088,757	8,222,430
Fixed income mutual funds	1,936,418	481,100
International equity mutual funds	1,810,180	2,008,940
	15,316,791	13,271,573
Split interest agreements		
U.S. Government securities	226,301	264,244
Corporate notes and bonds	176,823	167,521
Domestic equity mutual funds	8,662,909	7,241,113
Fixed income mutual funds	3,242,417	4,607,906
International equity mutual funds	1,926,667	2,042,674
	14,235,117	14,323,458
Total marketable securities	29,551,908	27,595,031
Certificates of deposit	7,128	7,126
Total investments	$ 29,559,036	$ 27,602,157

NOTE 5 – INVESTMENTS - Continued

The following summarizes the National Office's total investment return for the years ending December 31, 2014 and 2013 and the classification in the statement of activities:

	December 31, 2014		
	Unrestricted	Temporarily Restricted	Total
Dividend and interest income	$ 195,668	$ 692,424	$ 888,092
Net realized gains	91,894	386,672	478,566
Net unrealized (losses) gains	(143,961)	227,176	83,215
Total investment return	$ 143,601	$ 1,306,272	$ 1,449,873
Amounts as shown on the statement of activities:			
Endowment return appropriated for current operations	$ -	$ 232,338	$ 232,338
Investment income appropriated for current operations	195,668	609,759	805,427
Endowment return under spending policy	-	(24,295)	(24,295)
Unrealized and realized (losses) gains on investments other than endowment	(52,067)	488,470	436,403
Total investment return	$ 143,601	$ 1,306,272	$ 1,449,873

	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

NOTE 6 – FAIR VALUE MEASUREMENTS

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

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

Level I - 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 6 – 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, 2014 and 2013:

	Fair value measurement December 31, 2014			
	Level I	Level II	Level III	Total
U.S. Government securities	$ 1,926,863	$ 1,143,728	$ -	$ 3,070,591
Corporate notes and bonds				
Real estate industry	-	176,823	-	176,823
Financial services industry	-	1,208,423	-	1,208,423
Oil and gas	-	101,623	-	101,623
Other	-	1,327,100	-	1,327,100
Domestic equity mutual funds	14,538,365	213,300	-	14,751,665
Fixed income mutual funds	5,178,835	-	-	5,178,835
International equity mutual funds	3,736,848	-	-	3,736,848
Total marketable securities	25,380,911	4,170,997	-	29,551,908
CRTs	-	-	3,536,447	3,536,447
Beneficial interests in perpetual trusts	-	-	8,916,990	8,916,990
Total	$25,380,911	$ 4,170,997	$12,453,437	$42,005,345

	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 interests in perpetual trusts	-	-	8,580,756	8,580,756
Total	$24,869,894	$ 2,725,137	$ 9,896,449	$37,491,480

NOTE 6 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the National Office's Level III reconciliation for the years ended December 31, 2014 and 2013:

	2014	2013
Beginning balance	$ 9,896,449	$ 9,149,923
Acquired from Southeast and Upper Midwest Regions	2,619,179	-
Increase in CRTs	299,959	98,766
Net unrealized (loss) gain	(362,150)	647,760
Ending balance	$12,453,437	$ 9,896,449

NOTE 7 – ENDOWMENTS

The National Office's endowment consists of eighteen 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, 2014 and 2013.

NOTE 7 – ENDOWMENTS - Continued

The primary long-term financial objective for the National Office's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. Performance of the overall endowment against this objective is measured over rolling periods of one, three and five years. The endowments are managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that funds the National Office's existing spending policy and allows sufficient reinvestment to grow the endowment principal at a rate that exceeds inflation (as measured by the Consumer Price Index). Over the short term, the return for each element of the endowment portfolio should match or exceed each of the returns for the broader capital markets in which assets are invested.

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

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

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

NOTE 7 – ENDOWMENTS - Continued

The composition of donor restricted endowment and the changes in endowment net assets as of December 31, 2014 and 2013 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2013	$ 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
Change in interpretation of agreement	-	(13,950)	(13,950)
Appropriation of endowment assets for expenditure	(203,263)	-	(203,263)
Endowment net assets, December 31, 2013	1,287,393	5,164,145	6,451,538
Investment Return:			
Income	82,665	-	82,665
Net appreciation/depreciation (realized and unrealized)	125,378	-	125,378
Total investment return	208,043	-	208,043
Acquired from Southeast and Upper Midwest Regions	280,743	587,717	868,460
Appropriation of endowment assets for expenditure	(232,338)	-	(232,338)
Endowment net assets, December 31, 2014	$1,543,841	$ 5,751,862	$ 7,295,703

NOTE 8 – CONTRIBUTIONS RECEIVABLE

The National Office had the following contributions receivable at December 31, 2014 and 2013:

	2014	2013
Amounts due:		
In less than one year	$ 2,923,138	$ 3,935,177
In one to five years	1,481,339	890,000
Gross contributions receivable	4,404,477	4,825,177
Allowance for doubtful accounts	(300,105)	(565,225)
Bequests receivable	3,536,447	1,315,693
Unamortized present value discount	(56,317)	(41,828)
Net contributions receivable	$ 7,584,502	$ 5,533,817

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

NOTE 9 – SPLIT INTEREST AGREEMENTS

The National Office had the following interests at December 31, 2014 and 2013:

	2014	2013
CRTs (Arthritis Foundation is the trustee)	$ 3,553,453	$ 3,421,989
Gift annuity fund	10,182,498	10,462,774
Pooled income fund	499,166	438,695
Split interest agreements (included in investments)	14,235,117	14,323,458
CRTs (included in contributions receivable - Arthritis Foundation is not the trustee)	3,536,447	1,315,693
Perpetual trusts (Arthritis Foundation is not the trustee)	8,916,990	8,580,756
	$ 26,688,554	$ 24,219,907

NOTE 10 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2014 and 2013:

	estimated useful life	2014	2013
Land		$ 2,400,000	$ 2,400,000
Building and improvements	(10-30 years)	7,330,473	7,293,605
Leasehold improvements	(3-10 years)	239,198	239,198
Furniture and other equipment	(3-5 years)	2,647,805	1,852,217
		12,617,476	11,785,020
Accumulated depreciation		(7,182,483)	(6,625,218)
Net property and equipment		$ 5,434,993	$ 5,159,802

Depreciation expense was $419,381 and $387,694 for the years ended December 31, 2014 and 2013, respectively.

NOTE 11 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at December 31, 2014 and 2013:

	2014	2013
Wages	$ 541,522	$ 395,931
Payroll taxes and other related liabilities	177,867	165,977
Deferred subscription revenue	1,507,724	1,387,165
Deferred compensation plan	26,792	381,838
Deferred revenues	346,397	368,231
Refundable advances	278,252	13,120
Other	333,275	88,358
Total accrued expenses and other liabilities	$ 3,211,829	$ 2,800,620

NOTE 12 – 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, 2014 and 2013 were $82,742 and $73,452, respectively, and are included in property and equipment on the statement of financial position.

Future minimum lease payments under capital lease are as follows:

For the years ending December 31,	
2015	$ 259,873
2016	28,931
2017	18,520
2018	1,598
Total future minimum lease payments	308,922
Less amounts representing interest	(7,936)
Present value of net minimum lease payments	$ 300,986

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 $1,100,000 and $1,600,000 at December 31, 2014 and 2013 with related interest rates of 1.78 percent and 1.79 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, 2014 or 2013.

NOTE 12 – DEBT OBLIGATIONS - Continued

When the National Office acquired the assets and liabilities of the Southeast Region, they acquired the Region's liability related to a lease termination agreement. In 2013, the Southeast Region relocated their offices to the building owned by the National Office and terminated their lease with their previous landlord. The total obligation under the agreement was $48,000 which was included in the debt obligations. The terms of the agreement requires the Region to make 24 monthly payments of $2,000 beginning January 2014. Long-term debt matures as follows:

For the years ending December 31,	
2015	$ 500,000
2016	600,000
Total bond payable	1,100,000
Lease termination fee	22,000
Capital lease obligations	300,986
Total debt obligations	$ 1,422,986

NOTE 13 – JOINT COSTS

In 2014 and 2013, the National Office incurred joint costs of $9,754,041 and $11,431,739, respectively, 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, 2014 and 2013 were allocated as follows:

	2014	2013
Public health education	$ 6,956,066	$ 8,272,594
Fundraising	2,089,707	2,495,275
Other	708,268	663,870
Total	$ 9,754,041	$ 11,431,739

NOTE 14 – NET ASSETS

Temporarily restricted net assets at December 31, 2014 and 2013 were available for the following purposes:

	2014	2013
Programs, scholarships, training and projects	$ 5,811,168	$ 3,610,078
Research	4,066,751	3,839,284
Use in future periods	9,068,828	6,205,597
Total temporarily restricted net assets	$ 18,946,747	$ 13,654,959

Permanently restricted net assets consisted of the following at December 31, 2014 and 2013 and represent endowed gifts to be held in perpetuity with the investment income to be used for the following:

	2014	2013
Research, specific projects and operations	$ 5,951,862	$ 5,164,145
Beneficial interest in perpetual trusts	8,916,990	8,580,756
Total permanently restricted net assets	$ 14,868,852	$ 13,744,901

Temporarily restricted net assets released from restrictions consisted of the following in the years ended December 31, 2014 and 2013:

	2014	2013
Programs	$ 3,289,148	$ 4,813,388
Research	5,060,815	5,770,915
Use in future periods	909,509	993,967
Total temporarily restricted net assets released from restriction	$ 9,259,472	$ 11,578,270

NOTE 15 – OPERATING LEASES

The National Office has various operating leases for equipment and office space. Rental expense under these lease agreements was $513,903 and $423,021 for the years ended December 31, 2014 and 2013, respectively. Lease agreements having an original term of more than one year expire on various dates through 2021.

NOTE 15 – OPERATING LEASES - Continued

Future minimum annual lease payments are as follows:

For the years ending December 31,	
2015	$ 587,469
2016	518,076
2017	428,611
2018	385,458
2019	281,752
Thereafter	313,457
Total future minimum lease payments	$ 2,514,823

On April 28, 2015, the National Office sold their office building to a third party, and future minimum rental income subsequent to the date of this report will be zero. In addition, according to the sale agreement with the third party, the National Office will lease back the office space until October 28, 2015.

NOTE 16 – EMPLOYEE BENEFIT PLANS

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 were $598,979. Effective January 3, 2014, the National Office suspended employer profit sharing contributions and required matching contributions to the 401(k) Defined Contribution Retirement Plan. Accordingly, no employer contributions were made to the Plan for the year ended December 31, 2014 other than a discretionary employer matching contribution of $28,451 which was fully funded by available forfeitures. On January 1, 2015, the National Office reinstated all employer contributions.

NOTE 16 – EMPLOYEE BENEFIT PLANS - Continued

The National Office also 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 for the year ended December 31, 2013. No contributions were made for the year ended December 31, 2014. 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, 2014 and 2013, the assets and liabilities each totaled $26,792 and $381,838, respectively.

Defined Benefit Plans

As a result of the acquisition of the Southeast Region, the National Office maintains two defined benefit pension plans (the "Plans"). For 2013 information on these Plans, please see the financial statements for the Southeast Region for the year ended December 31, 2013. Certain employees of the Region are covered by the Pension Plan of Arthritis Foundation Southeast Region, Inc. (the "ARK Plan"). The employees covered by the ARK Plan represent substantially, all of the former Arkansas Chapter employees. Certain employees of the Region are covered by the Pension Plan of Arthritis Foundation Georgia Chapter, Inc. (the "GA Plan"). The employees covered by the GA Plan represent substantially, all of the former Georgia Chapter employees. Benefits of the Plans are based on years of service and compensation. Contributions are determined in accordance with the Plans' provisions.

During 2010, management of the Southeast Region had elected to terminate the ARK Plan and the estimated cost to terminate the ARK Plan was recorded at December 31, 2010. During 2013, management determined it was not financially prudent to terminate the ARK Plan, and an actuarial projection and analysis were performed for the year ended December 31, 2013. As of December 31, 2014 the Fair Value of Assets is $99,241, which is exceeded by the ARK Plan's Projected Benefit Obligation of $204,844. Therefore, the National Office reported the difference of $105,603 as a liability in the statement of financial position.

As of December 31, 2014, the Fair Value of Assets of the GA Plan is $215,410, which is exceeded by the GA Plan's Projected Benefit Obligation of $394,547. Therefore, the National Office reported the difference of $179,137 as a liability in the statement of financial position.

NOTE 16 – EMPLOYEE BENEFIT PLANS - Continued

The following table illustrates the percentage of fair value of the total Plans' assets by each major category at December 31, 2014, all of which assets are considered Level I assets.

	ARK Plan	GA Plan
Equity	0%	64%
Fixed income	0%	15%
Other	100%	21%
	100%	100%

The following table sets forth each of the Plans' funded status and amounts recognized in the National Office's statement of financial position within accrued expenses and other liabilities.

	2014
ARK Plan	
Fair value of plan assets at year end	$ 99,241
Projected benefit obligation/termination at year end	(204,844)
Funded status	$ (105,603)
GA Plan	
Fair value of plan assets at year end	$ 215,410
Projected benefit obligation at year end	(394,547)
Funded status	$ (179,137)
Amounts recognized on the statement of financial position consist of:	
Accrued pension liability - ARK Plan	$ 105,603
Accrued pension liability - GA Plan	179,137
Total accrued pension liability	$ 284,740

NOTE 16 – EMPLOYEE BENEFIT PLANS - Continued

	ARK Plan	GA Plan
Accumulated benefit obligation	$ 204,844	$ 394,547
Employer contributions	19,464	21,396
Participant contributions	-	-
Benefits paid	10,633	11,148

Weighted average assumptions for the Plans as of December 31, 2014:

	ARK Plan	GA Plan
Pre-retirement discount rate	3.60%	3.50%
Post-retirement discount rate	5.25%	4.75%
Expected long-term return on plan assets*	4.50%	8.00%
Rate of compensation increase	0.00%	0.00%

* Rate used for determination of net periodic benefit cost

The components of net periodic benefit for the Plans at December 31, 2014 were:

	ARK Plan	GA Plan
Service cost	$ 10,633	$ 11,148
Interest cost	8,281	14,040
Expected return on plan assets	(4,226)	(15,665)
Recognized actuarial loss	-	2,485
Net periodic pension cost	$ 14,688	$ 12,008

NOTE 16 – EMPLOYEE BENEFIT PLANS - Continued

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year Beginning	ARK Plan	GA Plan
2015	$ 19,000	$ -
2016	-	-
2017	22,000	23,000
2018	-	9,000
2019	-	-
Next five years	-	291,000
Total	$ 41,000	$ 323,000

The Expected Long-Term Rate of Return on Plan Assets assumption of eight 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 Chapters' 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 equal to 3.75 percent was selected and added to the real rate of return range to arrive at a best estimate range of 7.16 percent - 9.59 percent. A rate of eight percent which is within the best estimate range was selected.

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

	January 1, 2014	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	December 31, 2014
Net gain (loss) - ARK Plan	$ (16,571)	$ -	$ 30,831	$ 14,260
Net gain - GA Plan	$ 68,885	$ 2,485	$ 64,535	$ 130,935

The Region recorded a $78,717 increase in the unfunded portion of the benefit obligation and a corresponding change in unrestricted net assets to reflect the change in the funded status of the Plans for the year 2014. No plan assets are expected to be returned to the employer for either of the Plans during 2015.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The National Office has contingent commitments for research awards and grants for future years. The terms of research awards and grants are from one to three years with continuation of grants subject to certain performance requirements. At December 31, 2014, these commitments were as follows:

For the years ending December 31,	
2015	$ 1,200,000
2016	200,000
2017	200,000
Thereafter	200,000
Total commitments	$ 1,800,000

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

NOTE 18 – SUBSEQUENT EVENTS

The National Office has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2014 financial statements through May 11, 2015, the date that the financial statements were available to be issued.

As discussed in note 1, the National Office acquired the charters of both the Mid-Atlantic Region and the Florida Chapter on January 1, 2015. Both of these entities will continue to operate as divisions of the National Office.

On April 28, 2015, the National Office finalized the sale to a third party of the building that currently provides both office space for both the National Office and the Southeast Region and rental income from several tenants. The building sold for a net purchase price of approximately $5,460,000 which includes payment for National to lease back office space (see note 15). At December 31, 2014, the building and the land had a net book value of approximately $4,090,000.