

Financial Statements and Independent Auditors' Report

Arthritis Foundation, Florida Chapter, Inc.

Year ended December 31, 2013

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



Independent Auditors' Report

Board of Directors
Arthritis Foundation, Florida Chapter, Inc.

We have audited the accompanying financial statements of the Arthritis Foundation, Florida Chapter, Inc., (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, Florida Chapter, Inc., 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, Florida Chapter, Inc.'s 2012 financial statements, and our report dated March 20, 2013, expressed an unmodified audit opinion on those audited financial statements. 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 Dawis

Atlanta, Georgia
March 7, 2014

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Statement of Financial Position

December 31, 2013 with Summarized Financial Information as of December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				2013	2012
<u>Assets</u>					
Cash and cash equivalents	\$ 401,441	\$ -	\$ -	\$ 401,441	\$ 254,857
Investments	712,459	177,124	499	890,082	1,176,452
Due from National Office	203,523	-	-	203,523	104,541
Contributions receivable, net	161,750	223,040	-	384,790	336,039
Prepaid expenses and other assets	31,419	-	-	31,419	22,447
Funds held in trust by others	-	146,559	670,000	816,559	719,739
Beneficial interest in perpetual trusts	-	-	1,594,724	1,594,724	1,196,017
Property and equipment, net	<u>1,807,757</u>	<u>-</u>	<u>-</u>	<u>1,807,757</u>	<u>1,860,344</u>
 Total assets	 <u>\$ 3,318,349</u>	 <u>\$ 546,723</u>	 <u>\$ 2,265,223</u>	 <u>\$ 6,130,295</u>	 <u>\$ 5,670,436</u>
 <u>Liabilities and Net Assets</u>					
Accrued expenses and other liabilities	\$ 422,585	\$ -	\$ -	\$ 422,585	\$ 243,391
Net assets	<u>2,895,764</u>	<u>546,723</u>	<u>2,265,223</u>	<u>5,707,710</u>	<u>5,427,045</u>
 Total liabilities and net assets	 <u>\$ 3,318,349</u>	 <u>\$ 546,723</u>	 <u>\$ 2,265,223</u>	 <u>\$ 6,130,295</u>	 <u>\$ 5,670,436</u>

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Statement of Activities

Year Ended December 31, 2013 with Summarized Financial Information for the year ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2013	2012
<u>Operating Activities</u>					
Personal annual gifts	\$ 16,839	\$ -	\$ -	\$ 16,839	\$ 9,133
Personal major gifts	-	-	20,000	20,000	-
Commerce and industry gifts	140,754	-	-	140,754	195,313
Foundations	93,308	61,750	-	155,058	946,366
Memorials	1,629	-	-	1,629	6,314
Clubs and organizations	4,558	-	-	4,558	6,018
Residential	21,895	-	-	21,895	22,186
Other gifts	6,011	-	-	6,011	27,508
Membership/direct response marketing	559,849	-	-	559,849	597,749
Total contributions	844,843	61,750	20,000	926,593	1,810,587
Special events - gross income	1,027,084	-	-	1,027,084	1,047,497
Less direct donor benefit costs	(157,703)	-	-	(157,703)	(157,932)
Bequests/planned giving	1,292,514	55,075	333,231	1,680,820	547,419
Total direct public support	3,006,738	116,825	353,231	3,476,794	3,247,571
Federated campaigns	18,619	-	-	18,619	22,563
United Way	4,141	-	-	4,141	3,213
Total indirect public support	22,760	-	-	22,760	25,776
Contributed goods and services	76,390	-	-	76,390	67,935
Total public support	3,105,888	116,825	353,231	3,575,944	3,341,282
Government grants	7,500	-	-	7,500	-
Sales and service fees	28,067	-	-	28,067	20,869
Investment return appropriated for current operations	14,134	22,628	-	36,762	43,202
Recovery (loss) on uncollectible pledges	-	11,627	-	11,627	(25,360)
Gain on sale of fixed assets	-	-	-	-	20,074
Miscellaneous income	-	-	-	-	3,273
Total other revenue	49,701	34,255	-	83,956	62,058
Net assets released from restrictions	338,934	(338,934)	-	-	-
Total revenues, gains and public support	3,494,523	(187,854)	353,231	3,659,900	3,403,340
<u>Expenses</u>					
Research	228,928	-	-	228,928	148,718
Public health education	1,606,826	-	-	1,606,826	1,703,532
Professional education and training	48,845	-	-	48,845	6,760
Patient and community services	825,283	-	-	825,283	1,129,052
Fundraising	342,253	-	-	342,253	389,277
Management and general	360,205	-	-	360,205	356,818
Total program and supporting services expenses	3,412,340	-	-	3,412,340	3,734,157
Change in net assets from operating activities	82,183	(187,854)	353,231	247,560	(330,817)
<u>Non-operating Activities</u>					
Investment return over amounts appropriated for current operations	104,335	-	-	104,335	106,323
Change in value of beneficial interest in perpetual trusts and split interest agreements	-	76,820	65,476	142,296	123,312
Change in pension liability	(213,526)	-	-	(213,526)	291,694
Change in net assets from non-operating activities	(109,191)	76,820	65,476	33,105	521,329
Change in net assets	(27,008)	(111,034)	418,707	280,665	190,512
Net assets, beginning of year	2,922,772	657,757	1,846,516	5,427,045	5,236,533
Net assets, end of year	\$ 2,895,764	\$ 546,723	\$ 2,265,223	\$ 5,707,710	\$ 5,427,045

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

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	
	Public	Professional	Patient and	Total	Fundraising	Management and General	Total Supporting Services	2013	2012	
	Health	Education and Training	Community Services	Program Services						
Research	Education	Training	Services	Services						
<u>Expenses</u>										
Peer reviewed research awards	\$ 20,100	\$ -	\$ -	\$ -	\$ 20,100	\$ -	\$ -	\$ -	\$ 20,100	\$ -
Salaries	-	458,559	18,342	238,451	715,352	82,541	119,225	201,766	917,118	1,217,354
Payroll taxes	-	39,123	1,565	20,344	61,032	7,042	10,171	17,213	78,245	90,660
Employee benefits	-	193,115	7,725	100,420	301,260	34,761	50,209	84,970	386,230	432,407
Technology fees	-	28,869	1,155	15,012	45,036	5,196	7,505	12,701	57,737	72,757
Data processing and accounting services	-	1,899	76	987	2,962	342	494	836	3,798	328
Professional fees and contract services	-	16,981	679	8,830	26,490	3,057	4,415	7,472	33,962	54,210
Professional services - contributed	-	7,614	-	68,526	76,140	-	-	-	76,140	67,935
Supplies	-	27,229	1,089	14,159	42,477	4,901	7,079	11,980	54,457	44,815
Printing, publications, and artwork	-	7,928	317	4,122	12,367	1,427	2,061	3,488	15,855	18,831
Materials expenses	-	128	5	67	200	23	33	56	256	13,823
Membership/direct response marketing	-	148,730	-	-	148,730	60,749	-	60,749	209,479	223,603
Arthritis Today cost recovery	-	67,977	-	-	67,977	-	-	-	67,977	71,605
Postage, shipping, and delivery	-	10,636	425	5,530	16,591	1,914	2,766	4,680	21,271	22,737
Telephone	-	26,971	1,079	14,025	42,075	4,855	7,012	11,867	53,942	65,498
Occupancy	-	47,521	1,901	24,711	74,133	8,554	12,355	20,909	95,042	189,025
Taxes and licenses	-	1,655	66	861	2,582	298	430	728	3,310	3,273
Insurance	-	10,209	408	5,309	15,926	1,838	2,654	4,492	20,418	21,767
Staff travel	-	25,464	1,019	13,241	39,724	4,584	6,620	11,204	50,928	49,753
Volunteer travel	-	16,119	645	8,382	25,146	2,901	4,190	7,091	32,237	3,633
Meetings and conferences	-	12,519	501	6,510	19,530	2,253	3,255	5,508	25,038	61,567
Equipment lease and maintenance	-	10,176	407	5,291	15,874	1,832	2,645	4,477	20,351	19,063
Membership dues and subscriptions	-	974	39	507	1,520	175	254	429	1,949	2,385
Specific assistance to individuals	-	-	-	121,766	121,766	-	-	-	121,766	125,990
Advertising	-	10,179	407	5,293	15,879	1,832	2,647	4,479	20,358	43,675
Interest	-	17	1	9	27	3	4	7	34	27,044
Bad debt expense	-	-	-	-	-	-	-	-	-	3,227
Depreciation	-	26,294	1,052	13,673	41,019	4,733	6,835	11,568	52,587	68,251
Miscellaneous	-	11,269	450	5,860	17,579	2,028	2,932	4,960	22,539	42,952
Total operating expenses	20,100	1,208,155	39,353	701,886	1,969,494	237,839	255,791	493,630	2,463,124	3,058,168
Share expense	208,828	398,671	9,492	123,397	740,388	104,414	104,414	208,828	949,216	675,989
Total expenses	\$ 228,928	\$ 1,606,826	\$ 48,845	\$ 825,283	\$ 2,709,882	\$ 342,253	\$ 360,205	\$ 702,458	\$ 3,412,340	\$ 3,734,157

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Statement of Cash Flows

For the Year Ended December 31, 2013 with

Summarized Information for the Year Ended December 31, 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 280,665	\$ 190,512
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	52,587	68,251
Gain on sale of fixed assets	-	(20,074)
Net unrealized gain on beneficial interest in perpetual trusts	(65,476)	(53,573)
Net realized and unrealized gains on investments	(104,335)	(107,130)
Net realized and unrealized gains on funds held in trust by others	(76,820)	(69,739)
Change in asset and liabilities:		
Increase in due from National Office	(98,982)	(6,224)
Increase in contributions receivable	(48,751)	(136,039)
Increase in prepaid expenses and other assets	(8,972)	(3,462)
Increase in beneficial interest in perpetual trusts	(333,231)	-
Increase in funds held in trust by others	(20,000)	(250,000)
Decrease in notes receivable	-	482,054
Decrease in due to National Office	-	(173,651)
Increase in accrued expenses and other liabilities	179,194	(181,983)
Net cash used in operating activities	(244,121)	(261,058)
Cash flows from investing activities		
Purchase of investments	(770,575)	(160,000)
Proceeds from sale of investments	1,161,280	200,227
Proceeds from sale of fixed assets	-	392,600
Net cash provided by investing activities	390,705	432,827
Cash flows from financing activity		
Payment of mortgage payable	-	(407,544)
Net decrease in cash and cash equivalents	146,584	(235,775)
Cash and cash equivalents at beginning of year	254,857	490,632
Cash and cash equivalents at end of year	\$ 401,441	\$ 254,857
<u>Cash paid during the year for:</u>		
Interest	\$ 34	\$ 21,704
<u>Non-cash financing activity:</u>		
Contributions restricted for long-term investment	353,231	250,000

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 1 - DESCRIPTION OF ORGANIZATION

Arthritis Foundation, Florida Chapter, Inc. (the "Chapter") is a not-for-profit voluntary health agency by charter of the Arthritis Foundation, Inc. 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 Chapter provides public health education and community service programs along with supporting arthritis-related research and influencing public policy regarding research funding and access to care.

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 Chapter 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 Chapter 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 Chapter 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 Chapter and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the Chapter maintains them permanently. Generally, the donors of these assets permit the Chapter 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. Releases 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 chapter defines as non-operating. Included in non-operating are endowment returns in excess of the spending policy, changes in pension liability of the defined benefit plan, unrealized gains and losses on beneficial interests in perpetual trusts and changes in valuation of split-interest agreements.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes - The Chapter 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"). If the Chapter engages in activities unrelated to the mission of the Organization it may be responsible for payment of unrelated business income tax. Deferred tax assets and liabilities are measured based on enacted tax laws and rates expected to apply to taxable income in the year in which temporary differences are expected to be recorded or settled. Income taxes did not have a material impact on the financial position or change in net assets of the Chapter as of and for the year ended December 31, 2013.

The Chapter's policy is to record a liability for any tax position taken that is beneficial to the Chapter, 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 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 and 2011 and 2010 remain open for possible examination by the IRS.

Fair Value of Financial Instruments - The estimated fair value amounts for specific groups of financial instruments are presented within the notes applicable to such items. Due from National Office and accrued expenses and other liabilities are stated at cost, which approximates fair value, due to their short term maturity.

The fair value of investments, funds held in trust by others and beneficial interest in perpetual trusts is disclosed in other notes and is based upon quoted market values or values provided by external investment managers which were reviewed by management and the board.

Cash and Cash Equivalents - At December 31, 2013, cash accounts at each institution were insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 for interest bearing accounts and to an unlimited amount for certain non-interest bearing business accounts. At December 31, 2013, the Chapter had uninsured cash balances totaling approximately \$150,000. The Chapter has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents are highly liquid investments with an original maturity of three months or less at the date of purchase. Because of the short maturity of these financial instruments, the carrying value approximates the fair value.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these instruments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Chapter.

Allowance for Doubtful Accounts - Allowance for doubtful accounts on outstanding accounts receivable and pledges receivable balances are recorded when deemed necessary based upon historical trends, current market risk assessments and specific donor considerations. These amounts are considered past due after 30 days.

Beneficial Interest in Perpetual Trusts - The Chapter is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Chapter. The Chapter has legally enforceable rights or claims to such assets including the right to income there from. Under the perpetual trust arrangement the Chapter has recorded the asset and recognized permanently restricted contribution revenue at the fair value of its beneficial interest in the trust assets. Distributions received on the trust assets are recorded as unrestricted revenue in the statement of activities unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as net unrealized gains or losses on beneficial interest in perpetual trusts in the permanently restricted net asset class.

Funds Held in Trust by Others - Funds were transferred to a local community foundation to invest and manage. The agreement between the community foundation and the Chapter states that the transfer is irrevocable and that the transferred assets will not be returned to the Arthritis Foundation. However, the community foundation will make annual distributions of the income earned on the funds. The agreement also permits the community foundation to substitute another beneficiary in the place of the Arthritis Foundation if the Arthritis Foundation ceases to exist or if the governing board of the community foundation votes that support of the Arthritis Foundation either is no longer necessary or is inconsistent with the needs of the community.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Chapter'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 medical staff working with the Chapter.

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

Awards and Grants - Awards and grants are recorded as expense in the year for which the grants are designated. 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 Chapter'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 Chapter has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare the financial statements in conformity with GAAP. Actual results could differ from these estimates.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 3 - RELATED PARTY TRANSACTIONS

The Chapter is required to share 27 percent, 35 percent or 45 percent of public support and bequests, depending on the nature of the transaction, (less certain allowances) with the Arthritis Foundation, Inc., National Office (the "National Office"). For the years ended December 31, 2013 and 2012, share expenses were \$949,216 and \$675,989 respectively. The Chapter is also allocated a portion of certain contributions received by the National Office, which for the years ended December 31, 2013 and 2012 were \$726,483 and \$741,923 respectively. The Chapter reimburses the National Office for a portion of costs associated with *Arthritis Today*, the organization's magazine, its direct mail program, computer system support, financial services and educational and promotional materials which totaled \$345,904 and \$386,658 in 2013 and 2012 respectively. Amounts due to and from the National Office at year end arise as a result of transactions occurring between the two entities.

NOTE 4 - INVESTMENTS

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

	<u>2013</u>	<u>2012</u>
Marketable securities:		
Domestic equity mutual funds	\$ 357,059	\$ 496,647
Fixed income mutual funds	259,823	272,122
International equity mutual funds	<u>138,977</u>	<u>281,499</u>
Total marketable securities	<u>755,859</u>	<u>1,050,268</u>
Money market funds	<u>134,223</u>	<u>126,184</u>
Total investments	<u>\$ 890,082</u>	<u>\$ 1,176,452</u>

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 4 – INVESTMENTS - Continued

The following summarizes the Chapter’s total investment return and the classification in the statement of activities.

	December 31, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividend and interest income	\$ 14,134	\$ 22,628	\$ -	\$ 36,762
Net realized gains	148,723	-	-	148,723
Net unrealized losses	<u>(44,388)</u>	<u>-</u>	<u>-</u>	<u>(44,388)</u>
	118,469	22,628	-	141,097
Less investment return appropriated for current operations	<u>14,134</u>	<u>22,628</u>	<u>-</u>	<u>36,762</u>
Investment return over amount appropriated for current operations	<u>\$ 104,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,335</u>
	December 31, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividend and interest income	\$ 38,734	\$ 3,661	\$ -	\$ 42,395
Net realized (losses) gains	19,482	807	-	20,289
Net unrealized gains	<u>86,841</u>	<u>-</u>	<u>-</u>	<u>86,841</u>
	145,057	4,468	-	149,525
Less investment return appropriated for current operations	<u>38,734</u>	<u>4,468</u>	<u>-</u>	<u>43,202</u>
Investment return over amount appropriated for current operations	<u>\$ 106,323</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,323</u>

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 5 - FAIR VALUE MEASUREMENTS

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

Level I - Unadjusted quoted prices in active markets for identical assets or liabilities. Level I assets and liabilities includes certain domestic, fixed income and international equity mutual funds that are traded in an active exchange market.

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 domestic, fixed income and international equity mutual funds and investments using net asset value ("NAV") per share for which the Chapter has the ability to redeem its investment at the measurement date.

Level III - Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect the Chapter's assumptions based on the best information available in the circumstances. This category includes beneficial trusts for which the Chapter is not the trustee. The trusts valued based on the values of the underlying investments in the trust which are established by the trustee using valuation methods that are appropriate for the investments in the trusts.

The following table summarizes the valuation of the Chapter's investments and beneficial trusts by the above hierarchy levels as of December 31, 2013 and 2012:

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 5 - FAIR VALUE MEASUREMENTS - Continued

	December 31, 2013			
	Level I	Level II	Level III	Total
Domestic equity mutual funds	\$ 16,215	\$ 340,844	\$ -	\$ 357,059
Fixed income mutual funds	26,452	233,371	-	259,823
International equity mutual funds	<u>32,501</u>	<u>106,476</u>	<u>-</u>	<u>138,977</u>
Total marketable securities	<u>75,168</u>	<u>680,691</u>	<u>-</u>	<u>755,859</u>
Funds held in trust by others	-	-	816,559	816,559
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>1,594,724</u>	<u>1,594,724</u>
Total	<u>\$ 75,168</u>	<u>\$ 680,691</u>	<u>\$ 2,411,283</u>	<u>\$ 3,167,142</u>

	December 31, 2012			
	Level I	Level II	Level III	Total
Domestic equity mutual funds	\$ -	\$ 496,647	\$ -	\$ 496,647
Fixed income mutual funds	24,984	247,138	-	272,122
International equity mutual funds	<u>-</u>	<u>281,499</u>	<u>-</u>	<u>281,499</u>
Total marketable securities	<u>24,984</u>	<u>1,025,284</u>	<u>-</u>	<u>1,050,268</u>
Funds held in trust by others	-	-	719,739	719,739
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>1,196,017</u>	<u>1,196,017</u>
Total	<u>\$ 24,984</u>	<u>\$ 1,025,284</u>	<u>\$ 1,915,756</u>	<u>\$ 2,966,024</u>

Valuation Techniques and Significant Inputs

Level II marketable securities consist of domestic equity, fixed income mutual funds and international equity mutual funds that are valued by the mutual fund manager based on the market value of their underlying securities as well as fixed income securities that are valued using market values derived from current interest rates.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 5 - FAIR VALUE MEASUREMENTS – Continued

Level III includes the Chapter's beneficial interest in perpetual trusts and funds held in trust by others. The fair value is based on the value of the Chapter's portion of the underlying investments in the trusts using valuation methods that are appropriate for those investments as determined by the trustee.

Quantitative information related to valuation inputs is not available since the value of the trusts that was provided by the trustees was used without adjustment. On an annual basis, Chapter 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 and other funds held in trust are related to market fluctuations, as the investments held in the trusts are primarily marketable securities.

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

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 1,915,756	\$ 1,542,444
Additions	353,231	250,000
Net unrealized gain	<u>142,296</u>	<u>123,312</u>
Ending balance	<u>\$ 2,411,283</u>	<u>\$ 1,915,756</u>

NOTE 6 - CONTRIBUTIONS RECEIVABLE

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

	<u>2013</u>	<u>2012</u>
Amount due in:		
Less than one year	\$ 226,223	\$ 124,626
One to five years	<u>160,000</u>	<u>240,000</u>
Gross contributions receivable	386,223	364,626
Unamortized present value discount	<u>(16,960)</u>	<u>(28,587)</u>
Net contributions receivable	<u>\$ 369,263</u>	<u>\$ 336,039</u>

Discounts on contributions receivable were calculated at the date of donation using rates commensurate with the risks involved (the rate used was eight percent).

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 7 - BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

At December 31, 2013 and 2012, the Chapter had \$1,438,541 and \$1,196,017 in beneficial interest in perpetual trusts, respectively. These trust assets are reported on the statement of financial position and are valued at estimated fair-value. All net realized and unrealized gains are reported on the statement of activities as permanently restricted income, as appreciation in such funds is not available for expenditure by the Chapter.

NOTE 8 - FUNDS HELD IN TRUST BY OTHERS

At December 31, 2013 and 2012, the Chapter had \$816,559 and \$719,739 in funds held by a local community foundation, respectively. These assets are reported on the statement of financial position and are valued at fair value. All net realized and unrealized gains are reported on the statement of activities as temporarily restricted income, as appreciation in such funds is available for expenditure by the Chapter.

NOTE 9 - PROPERTY AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Buildings (useful life 30 - 40 years)	\$ 1,992,130	\$ 1,992,130
Building improvements (useful life 10 - 20 years)	36,730	36,730
Furniture and other equipment (useful life 3-5 years)	114,425	114,425
Land	407,000	407,000
Accumulated depreciation	<u>(742,528)</u>	<u>(689,941)</u>
Property and equipment, net	<u>\$ 1,807,757</u>	<u>\$ 1,860,344</u>

Depreciation expense was \$52,587 and \$68,251, respectively, for the years ended December 31, 2013 and 2012.

NOTE 10 - ACCRUED EXPENSES AND OTHER LIABILITIES

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

	<u>2013</u>	<u>2012</u>
Vacation	\$ 102,481	\$ 103,711
Defined benefit obligation - unfunded	286,024	72,478
Other	<u>34,080</u>	<u>67,202</u>
Total accrued expenses and other liabilities	<u>\$ 422,585</u>	<u>\$ 243,391</u>

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 11 - JOINT COSTS

In 2013 and 2012, the Chapter incurred joint costs of \$209,479 and \$223,603, respectively, for informational materials and activities that included fundraising appeals, such as the Chapter's direct mail. Joint costs for the years ended December 31, 2013 and 2012 were allocated as follows:

	<u>2013</u>	<u>2012</u>
Public health education	\$ 148,730	\$ 165,466
Fundraising	<u>60,749</u>	<u>58,137</u>
	<u>\$ 209,479</u>	<u>\$ 223,603</u>

NOTE 12 - NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Specific programs conducted by the Chapter	\$ 314,960	\$ 480,420
Research	177,123	122,697
Use in future periods	<u>54,640</u>	<u>54,640</u>
	<u>\$ 546,723</u>	<u>\$ 657,757</u>

Permanently restricted net assets consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beneficial interests in perpetual trusts	\$ 1,594,724	\$ 1,196,017
Funds held in trust by others	670,000	650,000
Other	<u>499</u>	<u>499</u>
	<u>\$ 2,265,223</u>	<u>\$ 1,846,516</u>

Temporarily restricted net assets released from restrictions for specific programs conducted by the Chapter totaled \$338,934 and \$806,618 for the year ended December 31, 2013 and 2012, respectively.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 13 - OPERATING LEASES

Rental expense for the Chapter office space was \$95,042 and 189,025 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 2017.

Future minimum annual lease payments as of December 31, 2013 are as follows:

For the years ending December 31,

2014	\$	6,365
2015		4,228
2016		4,658
2017		<u>788</u>
Total future minimum lease payments	\$	<u>16,039</u>

NOTE 14 - DEFINED BENEFIT PLAN

The Chapter has a defined benefit pension plan (the "Plan") covering substantially all of its employees. Benefits are based on years of service and compensation. Contributions are determined in accordance with the Plan's provisions.

The following table illustrates the percentage of fair value of total plan assets for each major category of plan assets, all of which are considered Level I assets, at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Equity	0.40%	0.20%
General account	<u>99.60%</u>	<u>99.80%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 14 - DEFINED BENEFIT PLAN - Continued

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

	2013	2012
Fair value of Plan assets at year end	\$ 2,003,802	\$ 2,511,361
Benefit obligation at year end	<u>(2,289,826)</u>	<u>(2,583,839)</u>
Funded Status	<u>\$ (286,024)</u>	<u>\$ (72,478)</u>
Amounts recognized on the statement of financial position consist of:		
Accrued benefit cost	<u>\$ (286,024)</u>	<u>\$ (72,478)</u>
Accumulated benefit obligation	\$ 2,033,509	\$ 2,346,025
Employer contributions	258,681	302,436
Participant contributions	-	-
Benefits paid	790,787	59,817

Weighted average assumptions for the Plan as of December 31, 2013 and 2012:

	2013	2012
Discount rate	3.25%	3.75%
Post-retirement interest rate	5.25%	5.25%
Expected return on plan assets	4.75%	4.75%
Rate of compensation increase	4.50%	4.50%

Total benefits (excluding expense charges of \$17,216) disbursed for the year ended December 31, 2013 were \$773,571.

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 14 - DEFINED BENEFIT PLAN – Continued

The components of net periodic pension costs for the Plan at December 31, 2013 and 2012 were:

	2013	2012
Service cost	\$ 99,403	\$ 94,301
Interest cost	70,178	71,145
Actual return on plan assets	(24,547)	(41,221)
Net amortization and deferral:		
Amortization of initial unrecognized net asset	(2,002)	(2,002)
Amortization of unrecognized prior service cost	-	7,208
Amortization of unrecognized net loss	76,229	40,232
Asset loss deferred	(62,670)	(37,352)
Net amortization and deferral	11,557	8,086
Net periodic pension cost	\$ 156,591	\$ 132,311

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

Year ended December 31,		
2014	\$ 990,000	\$ 1,333,000
2015	-	116,000
2016	-	-
2017	54,000	-
2018	43,000	112,000
Five years thereafter	1,678,000	1,334,000
Total estimated benefit payments	\$ 2,765,000	\$ 2,895,000

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 14 - DEFINED BENEFIT PLAN – Continued

The Expected Long-Term Rate of Return on Plan Assets assumption of 4.75 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 3.25 percent was selected and added to the real rate of return range to arrive at a best estimate range of 4.24 to 5.18 percent. A rate of 4.75 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 Plan:

	January 1, 2013	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	Effects of Settlement	December 31, 2013
Transition (asset) or obligation	\$ (7,407)	\$ 2,002	\$ -	\$ 1,351	\$ (4,054)
Net prior service cost or (credit)	-	-	-	-	-
Net gain (loss)	533,324	(76,229)	389,863	(211,740)	635,218

Due to the benefit payments during the year ended December 31, 2013, the above schedule reflects a settlement of the pension obligation. The sum of the settlements exceeded the sum of the service cost and interest cost; therefore, professional standards require that this be recognized as a settlement of the pension obligation.

The following is the estimated effect in the next fiscal year of items not yet reflected in the net periodic benefit cost:

	January 1, 2014	Estimated Amounts to be Reclassified as Net Periodic Benefit Cost
Transition (asset) or obligation	\$ (4,054)	\$ 1,502
Net prior service cost or (credit)	-	-
Net loss or (gain)	635,218	78,122

ARTHRITIS FOUNDATION, FLORIDA CHAPTER, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 2012

NOTE 14 - DEFINED BENEFIT PLAN – Continued

No Plan assets are expected to be returned to the Chapter during the 2014 fiscal year.

Employer contributions expected to be paid to the Plan during fiscal year 2014 are approximately \$300,000.

NOTE 15 - SUBSEQUENT EVENTS

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