

Financial Statements and Independent Auditors' Report

Arthritis Foundation, South Central Region, 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, South Central Region, Inc.

We have audited the accompanying financial statements of the Arthritis Foundation, South Central Region, 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, South Central Region, 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, South Central Region, Inc.'s 2012 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated March 22, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Metcalf Davis

Atlanta, Georgia
March 19, 2014

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, 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	\$ 342,678	\$ 107,901	\$ -	\$ 450,579	\$ 663,622
Investments	661,602	2,043,845	50,386	2,755,833	5,424,952
Investments held by National Office	-	872,929	1,856,978	2,729,907	-
Due from National Office	40,141	-	-	40,141	-
Contributions and bequests receivable, net	88,690	41,086	-	129,776	104,486
Prepaid expenses and other assets	49,107	-	-	49,107	52,012
Charitable remainder trusts	-	333,895	-	333,895	288,643
Beneficial interests in perpetual trusts	-	-	111,156	111,156	107,094
Property and equipment, net	<u>6,836</u>	<u>-</u>	<u>-</u>	<u>6,836</u>	<u>12,672</u>
Total assets	<u>\$ 1,189,054</u>	<u>\$ 3,399,656</u>	<u>\$ 2,018,520</u>	<u>\$ 6,607,230</u>	<u>\$ 6,653,481</u>
<u>Liabilities and Net Assets</u>					
Accounts payable	\$ 111,217	\$ -	\$ -	\$ 111,217	\$ 59,388
Accrued expenses and other liabilities	63,469	-	-	63,469	77,642
Due to National Office	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,873</u>
Total liabilities	174,686	-	-	174,686	160,903
Net assets	<u>1,014,368</u>	<u>3,399,656</u>	<u>2,018,520</u>	<u>6,432,544</u>	<u>6,492,578</u>
Total liabilities and net assets	<u>\$ 1,189,054</u>	<u>\$ 3,399,656</u>	<u>\$ 2,018,520</u>	<u>\$ 6,607,230</u>	<u>\$ 6,653,481</u>

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, 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 major gifts	\$ 55,000	\$ -	\$ -	\$ 55,000	\$ 77,943
Personal annual gifts	51,610	1,324	-	52,934	67,168
Commerce and industry gifts	205,457	79,934	-	285,391	380,479
Foundations	25,925	106,405	-	132,330	212,790
Memorials	10,833	574	-	11,407	12,135
Clubs and organizations	6,627	-	-	6,627	899
Other gifts	2,805	-	-	2,805	5,191
Thrift shop	30,690	-	-	30,690	36,000
Membership/direct response marketing	704,901	-	-	704,901	742,508
Total contributions	1,093,848	188,237	-	1,282,085	1,535,113
Special events - gross income	2,408,451	-	-	2,408,451	2,115,276
Less direct donor benefit costs	(514,186)	-	-	(514,186)	(495,694)
Bequests/planned giving	279,352	30,431	70,285	380,068	578,725
Total direct public support	3,267,465	218,668	70,285	3,556,418	3,733,420
Federated campaigns	104,447	2,730	-	107,177	93,013
United Way	103,035	-	-	103,035	187,166
Total indirect public support	207,482	2,730	-	210,212	280,179
Total public support	3,474,947	221,398	70,285	3,766,630	4,013,599
Sales and service fees	28,958	-	-	28,958	22,509
Investment return appropriated for current operations	104,398	103,584	-	207,982	47,842
Miscellaneous income	227	-	-	227	9,967
Total other revenue	133,583	103,584	-	237,167	80,318
Losses on uncollectible pledges	(1,566)	(9,449)	-	(11,015)	(23,798)
Net assets released from restrictions	514,399	(514,399)	-	-	-
Total revenues, gains, losses and public support	4,121,363	(198,866)	70,285	3,992,782	4,070,119
<u>Expenses</u>					
Program	3,696,932	-	-	3,696,932	3,402,007
Fundraising	692,260	-	-	692,260	697,003
Management and general	364,391	-	-	364,391	363,736
Total program and supporting services expenses	4,753,583	-	-	4,753,583	4,462,746
Change in net assets from operating activities	(632,220)	(198,866)	70,285	(760,801)	(392,627)
<u>Non-operating Activities</u>					
Investment return over amounts appropriated for current operations	92,215	559,238	-	651,453	460,659
Unrealized gain (loss) on beneficial interests in perpetual trusts	-	-	4,062	4,062	(1,568)
Unrealized gain on charitable remainder trusts	-	45,252	-	45,252	1,201
Change in net assets from non-operating activities	92,215	604,490	4,062	700,767	460,292
Change in net assets	(540,005)	405,624	74,347	(60,034)	67,665
Net assets, beginning of year	1,554,373	2,994,032	1,944,173	6,492,578	6,424,913
Net assets, end of year	\$ 1,014,368	\$ 3,399,656	\$ 2,018,520	\$ 6,432,544	\$ 6,492,578

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Statement of Functional Expenses

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

Expenses	PROGRAM SERVICES					SUPPORTING SERVICES				Totals	
	Research	Public Health Education	Professional Education and Training	Patient and Community Services	Total Program Services	Fundraising	Management and General	Total Supporting Services	2013	2012	
	Research	Education	Training	Services	Services	Fundraising	and General	Services	2013	2012	
Peer reviewed research awards	\$ 245,000	\$ -	\$ -	\$ -	\$ 245,000	\$ -	\$ -	\$ -	\$ 245,000	\$ 30,348	
Salaries	-	580,346	132,650	547,183	1,260,179	265,302	132,650	397,952	1,658,131	1,614,487	
Payroll taxes	-	47,547	10,868	44,830	103,245	21,736	10,868	32,604	135,849	136,355	
Employee benefits	-	61,577	14,075	58,058	133,710	28,149	14,075	42,224	175,934	172,594	
Technology fees	-	41,234	9,425	38,878	89,537	18,850	9,425	28,275	117,812	119,975	
Data processing and accounting services	-	945	216	891	2,052	432	216	648	2,700	2,550	
Professional fees and contract services	-	108,821	24,873	102,603	236,297	49,747	24,874	74,621	310,918	218,444	
Supplies	-	13,654	3,121	12,874	29,649	6,242	3,121	9,363	39,012	42,079	
Printing, publications, and artwork	-	21,244	4,856	20,030	46,130	9,711	4,855	14,566	60,696	33,082	
Materials expenses	-	6,298	1,440	5,938	13,676	2,879	1,439	4,318	17,994	15,261	
Membership/direct response marketing	-	187,759	-	-	187,759	76,691	-	76,691	264,450	279,528	
Arthritis Today cost recovery	-	75,193	-	-	75,193	-	-	-	75,193	78,920	
Postage, shipping, and delivery	-	6,183	1,413	5,830	13,426	2,827	1,414	4,241	17,667	20,112	
Telephone	-	17,753	4,058	16,739	38,550	8,116	4,058	12,174	50,724	49,575	
Occupancy	-	51,359	11,739	48,424	111,522	23,478	11,740	35,218	146,740	193,328	
Taxes and licenses	-	398	91	375	864	182	90	272	1,136	466	
Insurance	-	11,003	2,515	10,374	23,892	5,030	2,514	7,544	31,436	27,100	
Staff travel	-	33,235	7,596	31,335	72,166	15,193	7,597	22,790	94,956	68,983	
Volunteer travel	-	2,204	504	2,078	4,786	1,008	504	1,512	6,298	16,096	
Meetings and conferences	-	44,546	10,182	42,000	96,728	20,364	10,182	30,546	127,274	125,214	
Equipment lease and maintenance	-	14,642	3,347	13,805	31,794	6,693	3,346	10,039	41,833	37,865	
Membership dues and subscriptions	-	3,357	767	3,165	7,289	1,535	767	2,302	9,591	8,873	
Advertising	-	1,195	273	1,127	2,595	546	274	820	3,415	2,800	
Miscellaneous	-	29,307	6,699	27,632	63,638	13,397	6,698	20,095	83,733	75,890	
Depreciation	-	2,043	467	1,926	4,436	934	466	1,400	5,836	6,083	
Total direct expenses	245,000	1,361,843	251,175	1,036,095	2,894,113	579,042	251,173	830,215	3,724,328	3,376,008	
Share expense	195,558	442,580	10,293	154,388	802,819	113,218	113,218	226,436	1,029,255	1,086,738	
Total expenses	\$ 440,558	\$ 1,804,423	\$ 261,468	\$ 1,190,483	\$ 3,696,932	\$ 692,260	\$ 364,391	\$ 1,056,651	\$ 4,753,583	\$ 4,462,746	

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, 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	\$ (60,034)	\$ 67,665
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	5,836	6,083
Net unrealized (gains) losses on beneficial interests in perpetual trusts	(4,062)	1,568
Net realized and unrealized gains on investments	(573,106)	(388,936)
Net unrealized gains on charitable remainder trusts	(45,252)	(1,201)
Contribution of charitable remainder trust	-	(266,294)
Contribution of beneficial interest in assets held by others	-	(62,449)
Change in assets and liabilities:		
Investments held by the National Office	(2,729,907)	-
Due from National Office	(40,141)	7,129
Contributions receivable	(25,290)	97,334
Prepaid expenses and other assets	2,905	(20,027)
Accounts payable	51,829	11,711
Accrued expenses and other liabilities	(14,173)	22,468
Research awards and grants payable	-	(15,000)
Due to National Office	(23,873)	23,873
Net cash (used in) operating activities	(3,455,268)	(516,076)
Cash flows from investing activities		
Purchase of investments	(492,985)	(2,377,639)
Proceeds from sale of investments	3,735,210	2,709,132
Net cash provided by investing activities	3,242,225	331,493
Net decrease in cash and cash equivalents	(213,043)	(184,583)
Cash and cash equivalents at beginning of year	663,622	848,205
Cash and cash equivalents at end of year	\$ 450,579	\$ 663,622
<u>Supplemental Schedule:</u>		
Contribution of charitable remainder trust	\$ -	\$ 266,294
Contribution of beneficial interest in assets held by others	-	62,449

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, 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, South Central Region, Inc. (the “Region”) is a not-for-profit voluntary health agency serving the states of Texas, Oklahoma and New Mexico by charter of the Arthritis Foundation, Inc. The Region seeks 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 Region 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 Region 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 Region 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 Region 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 Region and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the Region maintains them permanently. Generally, the donors of these assets permit the Region 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 Region defines as non-operating. Non-operating includes all investment returns in excess of the Region’s spending policy, unrealized gains and losses on beneficial interests in assets held by others and changes in valuation of split interest agreements.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, 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 Region is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code (the “Code”), except to the extent it has unrelated business income. In addition, the Region has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. For the years ended December 31, 2013 and 2012, the Region had no net unrelated business income. Accordingly, no provision for income tax has been provided in the accompanying financial statements.

Accounting standards require the evaluation of tax positions taken or expected to be taken in the course of preparing the Region’s annual tax return to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense in the current year. A reconciliation is not provided herein, as the beginning and ending amounts of unrecognized benefits are zero, with no interim additions, reductions, or settlements. The Region is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status. However, the conclusions regarding accounting for uncertainty in income taxes will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

The Region recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. Informational returns filed are generally subject to examination for three years after the later of the due date or date of filing. As a result, the Region is no longer subject to income tax examinations by tax authorities for years prior to 2010.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and all highly-liquid investments with original maturities at the date of purchase of three months or less excluding (i) cash and cash equivalents in the investment portfolio and (ii) donor-restricted cash. Because of the short maturity of these financial instruments, the carrying value approximates the fair value. The Region places its cash and cash equivalents with high credit quality financial institutions located in the United States. At times, these balances may exceed federally insured limits. The Region has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments - Investments in marketable securities with readily determinable fair values 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.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, 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

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

Beneficial Interests in Assets Held by Others - The Region is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Region. The Region has legally enforceable rights or claims to such assets including the right to income there from. Under the perpetual trust arrangement the Region has recorded the asset and recognized permanently restricted contribution revenue at the fair value of its beneficial interests 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 interests in the trust assets are recorded as net unrealized gains or losses on beneficial interests in assets held by others in the permanently restricted net asset class.

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 Region'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 advertising and donated media costs.

In addition, the Region receives services from a large number of volunteers who give significant amounts of their time to the Region'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 and Bequests Receivable - 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. The Region records unconditional promises to give, expected to be collected within one year, at net realizable value. Those expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed on the date of the gift using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Accretion of discounts is recognized as contribution revenue using the effective interest rate.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, 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

An allowance for doubtful contributions and bequests receivable 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. Accounts receivable are considered past due after 30 days.

Conditional promises to give are recognized when the conditions stipulated by the donor are substantially met. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

Special Events - The Region conducts special fundraising events including annual walks, runs, dinners, galas, and golf tournaments. Participation and registration fees, along with contributions received from participants and other donors in support of the event, are included as event revenue. The cost to the Region for the direct benefit that the participant receives at such events is presented as a separate component of direct public support revenue on the statement of activities. All other costs related to the event are recorded as fundraising expense.

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 the grant conditional upon completion of certain performance requirements.

Functional Allocation - The cost of providing the Region'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 Region 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.

Reclassifications - Certain reclassifications have been made to 2012 balances to conform to the 2013 presentation. These reclassifications were considered insignificant and did not change 2012 net assets as previously recorded.

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 Region's financial statements as of and for the year ended December 31, 2012, from which the summarized financial information was derived.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Notes To Financial Statements

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

NOTE 3 – RELATED PARTY TRANSACTIONS

The Region is required to share 27 percent, 35 percent or 45 percent of certain public support and bequests (less certain allowances), depending on the nature of the transaction, with the National Office. This share expense totaled \$1,029,255 and \$1,086,738 for the years ended December 31, 2013 and 2012, respectively. The Region is also allocated a portion of certain contributions received by the National Office, which totaled \$913,116 and \$950,511 for the years ended December 31, 2013 and 2012, respectively. The Region 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 \$474,590 and \$496,778 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. The National Office has the ability to net amounts due to the Region with amounts due from the Region, thus these amounts are combined and presented as either due to or from the National Office on the statement of financial position. At December 31, 2013, the amount due from the National Office was \$40,141.

NOTE 4 – INVESTMENTS

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

	<u>2013</u>	<u>2012</u>
Marketable securities:		
Common stocks	\$ -	\$ 5,046
Domestic equity mutual funds	1,331,395	2,414,823
Fixed income mutual funds	963,436	2,171,759
Open end mutual funds	11,846	10,041
REITs	<u>1,422</u>	<u>1,299</u>
Total marketable securities	<u>2,308,099</u>	<u>4,602,968</u>
Money market funds	306,874	581,463
Certificates of deposit	<u>140,860</u>	<u>240,521</u>
Total investments	<u>\$ 2,755,833</u>	<u>\$ 5,424,952</u>

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, 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 Region’s total investment return, net of investment management fees of \$29,760 and \$19,991 for the years ended December 31, 2013 and 2012, respectively, and the classification in the statement of activities.

	December 31, 2013		
	Unrestricted	Temporarily Restricted	Total
Dividend and interest income	\$ 104,398	\$ 89,716	\$ 194,114
Net realized gains	31,128	445,285	476,413
Net unrealized gains	61,087	127,821	188,908
	196,613	662,822	859,435
Less investment return designated for operations	104,398	103,584	207,982
Investment return over amount designated for operations	\$ 92,215	\$ 559,238	\$ 651,453
	December 31, 2012		
	Unrestricted	Temporarily Restricted	Total
Dividend and interest income	\$ 36,056	\$ 83,509	\$ 119,565
Net realized gains	19,459	125,754	145,213
Net unrealized losses	33,650	210,073	243,723
	89,165	419,336	508,501
Less investment return designated for operations	36,056	11,786	47,842
Investment return under amount designated for operations	\$ 53,109	\$ 407,550	\$ 460,659

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Notes To Financial Statements

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

NOTE 5 – FAIR VALUE MEASUREMENTS

GAAP emphasizes 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 that market participants would use in pricing the asset or liability.

As a basis for considering market participant assumptions in fair value measurements, GAAP establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the Organization's financial instruments. The inputs are summarized in three levels as outlined below:

Level I Inputs – Unadjusted quoted prices for identical instruments in active markets. The Region's Level I assets include debt and equity securities that are traded in an active exchange market.

Level II Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Valuations in this category are inherently less reliable than Level 1 quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions. Level II investments consist of real estate investment trusts that are valued based on market prices for similar and actively traded investments. This category also includes investments held by the National Office.

Level III Inputs - Unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management. This category includes the Region's interests in assets held by others. The fair value is based on the value of the Region's portion of the underlying investments in the trusts using valuation methods that are appropriate for those investments as determined by the trustee.

In certain cases, the inputs used to measure fair value may fall into different hierarchy levels. In such cases, for disclosure purposes, the level in the hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement. The Region's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

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

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Notes To Financial Statements

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

NOTE 5 – FAIR VALUE MEASUREMENTS - Continued

The following tables summarize the valuation of the Region's marketable securities and funds held by others by the above hierarchy levels as of December 31, 2013 and 2012:

	December 31, 2013			Total
	Level I	Level II	Level III	
Domestic equity mutual funds	\$ 1,331,395	\$ -	\$ -	\$ 1,331,395
Fixed income mutual funds	963,436	-	-	963,436
Open end mutual funds	-	11,846	-	11,846
REITs	-	<u>1,422</u>	-	<u>1,422</u>
Total marketable securities	2,294,831	13,268	-	2,308,099
Investments held by the National Office	-	2,729,907	-	2,729,907
Charitable remainder trusts	-	-	333,895	333,895
Beneficial interests in perpetual trusts	-	-	<u>111,156</u>	<u>111,156</u>
Total	<u>\$ 2,294,831</u>	<u>\$ 2,743,175</u>	<u>\$ 445,051</u>	<u>\$ 5,483,057</u>

	December 31, 2012			Total
	Level I	Level II	Level III	
Common stocks	\$ 5,046	\$ -	\$ -	\$ 5,046
Domestic equity mutual funds	2,414,823	-	-	2,414,823
Fixed income mutual funds	2,171,759	-	-	2,171,759
Open end mutual funds	-	10,041	-	10,041
REITs	-	<u>1,299</u>	-	<u>1,299</u>
Total marketable securities	4,591,628	11,340	-	4,602,968
Charitable remainder trusts	-	-	288,643	288,643
Beneficial interests in perpetual trusts	-	-	<u>107,094</u>	<u>107,094</u>
Total	<u>\$ 4,591,628</u>	<u>\$ 11,340</u>	<u>\$ 395,737</u>	<u>\$ 4,998,705</u>

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Notes To Financial Statements

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

NOTE 5 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the Region’s level III reconciliation for the beneficial interests in assets held by others for the years ended December 31, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Beginning balance	\$395,737	\$ 67,361
Contribution of trusts held by others	-	328,743
Net unrealized gain (loss)	<u>49,314</u>	<u>(367)</u>
Ending balance	<u>\$445,051</u>	<u>\$395,737</u>

NOTE 6 – ENDOWMENTS

The Region's endowment consists of seven donor restricted endowment funds established throughout the South Central Region for the purposes of funding research and supporting operations.

Region management understands Texas’ 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 Region 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 Region considers the following factors in making a determination to appropriate or accumulated donor restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Region 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 Region
7. The investment policy of the Region

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Notes To Financial Statements

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

NOTE 6 – ENDOWMENTS - Continued

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 are reported as a reduction in unrestricted net assets. There were no such deficiencies noted for the years ended December 31, 2013 and 2012.

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

As the earnings on each of the Region's endowments were donor designated for a specific purpose, earnings from the endowment are appropriated for expenditure as needed to fund each of these restricted programs. Spending in a given year will reduce the unit value of each endowment element by the amount used for the restricted purpose designated by the donor of each specific endowment. In no case will funds designated as True Endowment be reduced below their initial unit value. 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 Region's risk preference.

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

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Notes To Financial Statements

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

NOTE 6 – ENDOWMENTS - Continued

Change in donor restricted endowment net assets:

	December 31, 2013		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 795,813	\$ 1,837,079	\$ 2,632,892
Contributions	-	70,285	70,285
Investment return:			
Investment income	39,341	-	39,341
Net appreciation	<u>147,995</u>	<u>-</u>	<u>147,995</u>
Total investment return	187,336	-	187,336
Appropriation of endowment assets for current operations	<u>(103,584)</u>	<u>-</u>	<u>(103,584)</u>
Endowment net assets, end of the year	<u>\$ 879,565</u>	<u>\$ 1,907,364</u>	<u>\$ 2,786,929</u>
	December 31, 2012		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 537,052	\$ 1,837,079	\$ 2,374,131
Investment return:			
Investment income	50,711	-	50,711
Net appreciation	<u>219,836</u>	<u>-</u>	<u>219,836</u>
Total investment return	270,547	-	270,547
Appropriation of endowment assets for current operations	<u>(11,786)</u>	<u>-</u>	<u>(11,786)</u>
Endowment net assets, end of the year	<u>\$ 795,813</u>	<u>\$ 1,837,079</u>	<u>\$ 2,632,892</u>

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Notes To Financial Statements

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

NOTE 7 – CONTRIBUTIONS RECEIVABLE

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

	<u>2013</u>	<u>2012</u>
Amount due in:		
Less than one year	\$ 121,760	\$ 55,509
One to five years	<u>21,665</u>	<u>62,780</u>
Gross contributions receivable	143,425	118,289
Allowance for doubtful accounts	(8,210)	(12,941)
Unamortized present value discount	<u>(5,439)</u>	<u>(862)</u>
Net contributions receivable	<u>\$ 129,776</u>	<u>\$ 104,486</u>

Contributions receivable are net of unamortized present value discount calculated at the date of donation using rates commensurate with the risks involved (rates used were between one and three percent).

NOTE 8 – CHARITABLE REMAINDER TRUSTS

The Region is a beneficiary under several charitable remainder trusts. Under these agreements, the Region will receive the assets of the trusts upon their expirations. Until that time, the life income beneficiary receives some portion of the income. The assets of this trust are held by an outside trustee and are valued at fair value. The Region records an interest in the net assets held in the trust measured at the present value of the distributions expected to be received using discount rates and actuarial assumptions which consider the donor's life expectancy and the rates typically earned on those investments. At December 31, 2013 and 2012, the Region had \$333,895 and \$288,643 in charitable remainder trusts, respectively.

NOTE 9 – PROPERTY AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Leasehold improvements (useful life 3-10 years)	\$ 22,476	\$ 22,476
Furniture and other equipment (useful life 3-5 years)	77,552	77,552
Accumulated depreciation	<u>(93,192)</u>	<u>(87,356)</u>
Net property and equipment	<u>\$ 6,836</u>	<u>\$ 12,672</u>

Depreciation expense was \$5,836 and \$6,083 for the year ended December 31, 2013 and 2012, respectively.

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Notes To Financial Statements

December 31, 2013 with Summarized Information for the Year Ended December 31, 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	\$ 50,166	59,567
Other	<u>13,303</u>	<u>18,075</u>
Total accrued expenses and other liabilities	<u>\$ 63,469</u>	<u>\$ 77,642</u>

NOTE 11 – JOINT COSTS

In 2013 and 2012, the Region incurred joint costs in services provided by the National Office such as the direct mail program and other activities. Informational materials distributed in these programs included both public health education components and fundraising appeals which have been functionally allocated on the statement of activities using percentages provided by the National Office. Joint costs for the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Public health education	\$ 187,759	\$ 206,851
Fundraising	<u>76,691</u>	<u>72,677</u>
	<u>\$ 264,450</u>	<u>\$ 279,528</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 Region	\$ 2,104,433	\$ 1,877,298
Research	1,018,375	875,457
Use in future periods	<u>276,848</u>	<u>241,277</u>
	<u>\$ 3,399,656</u>	<u>\$ 2,994,032</u>

ARTHRITIS FOUNDATION, SOUTH CENTRAL REGION, INC.

Notes To Financial Statements

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

NOTE 12 – NET ASSETS - Continued

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

	<u>2013</u>	<u>2012</u>
Research and specific projects	\$ 1,907,364	\$ 1,837,079
Beneficial interest in perpetual trusts	<u>111,156</u>	<u>107,094</u>
	<u>\$ 2,018,520</u>	<u>\$ 1,944,173</u>

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

	<u>2013</u>	<u>2012</u>
Specific programs conducted by the Region	\$ 275,087	\$ 271,289
Research	238,560	87,572
Time releases	<u>752</u>	<u>179,987</u>
	<u>\$ 514,399</u>	<u>\$ 538,848</u>

NOTE 13 – OPERATING LEASES

Rental expense for Region office space was \$146,740 and \$193,328 for the year 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:

<u>For the years ending December 31,</u>	
2014	\$ 155,362
2015	84,739
2016	51,877
2017	<u>2,550</u>
Total future minimum lease payments	<u>\$ 294,528</u>

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Notes To Financial Statements

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NOTE 14 – EMPLOYEE BENEFIT PLAN

The Region sponsors a defined contribution retirement plan (the “Plan”) covering substantially all of the employees of the Region. Prior to December 31, 2011, the Region contributed eight to 15 percent of each eligible employee’s compensation as specified in the Plan agreement. Effective January 1, 2012, the Plan was amended, and in accordance with the amended plan, the Region made contributions totaling two percent of each eligible employee’s compensation for the year ended December 31, 2013. Total contributions to the plan for the years ended December 31, 2013 and 2012 were \$23,677 and \$19,945, respectively.

NOTE 15 – SUBSEQUENT EVENTS

The Region has evaluated subsequent events for potential recognition and /or disclosure in the December 31, 2013 financial statements through March 19, 2014, the date that the financial statements were available to be issued.