



# Arthritis Foundation, Inc.

Financial Statements  
Years Ended December 31, 2021 and 2020

# **Arthritis Foundation, Inc.**

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Financial Statements  
Years Ended December 31, 2021 and 2020

# Arthritis Foundation, Inc.

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## **Independent Auditor's Report**

Board of Directors  
Arthritis Foundation, Inc.  
Atlanta, GA

### ***Opinion***

We have audited the financial statements of Arthritis Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*BDO USA, LLP*

September 16, 2022

## Financial Statements

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# Arthritis Foundation, Inc.

## Statements of Financial Position

December 31,	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 29,437,623	\$ 27,397,242
Investments	105,015,443	82,934,841
Accounts and notes receivable, net	299,291	934,946
Contributions receivable, net	11,458,185	11,676,884
Prepaid expenses and other assets	1,765,786	1,798,433
Inventory	105,112	163,698
Split interest agreements	67,643,183	62,715,801
Property and equipment, net	4,199,499	5,227,283
<b>Total Assets</b>	<b>\$ 219,924,122</b>	<b>\$ 192,849,128</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,838,909	\$ 1,406,159
Accrued expenses and other liabilities	3,150,386	5,571,214
Research awards and grants payable	14,550,158	12,006,947
Liabilities under split interest agreements	7,290,771	7,399,326
Paycheck Protection Program ("PPP") Loan	2,000,000	-
<b>Total Liabilities</b>	<b>28,830,224</b>	<b>26,383,646</b>
<b>Net Assets</b>		
Without donor restrictions	61,209,068	47,830,924
With donor restrictions	129,884,830	118,634,558
<b>Total Net Assets</b>	<b>191,093,898</b>	<b>166,465,482</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 219,924,122</b>	<b>\$ 192,849,128</b>

*See the accompanying notes to the financial statements.*

# Arthritis Foundation, Inc.

## Statements of Activities

<i>Years ended December 31,</i>	Without Donor Restrictions	With Donor Restrictions	Total 2021	Total 2020
<b>Revenues, Gains and Public Support</b>				
Direct response marketing contributions	\$ 10,057,477	\$ -	\$ 10,057,477	\$ 9,389,733
Corporate contributions	646,573	7,296,680	7,943,253	8,205,722
Personal contributions	973,902	1,091,344	2,065,246	1,550,679
Foundations	428,257	1,027,413	1,455,670	2,172,565
Memorials	73,715	2,623	76,338	84,513
Other gifts	98,852	86,618	185,470	119,230
Total contributions	12,278,776	9,504,678	21,783,454	21,522,442
Special events - gross income	-	11,454,260	11,454,260	9,798,252
Less direct donor benefit costs	-	(1,703,064)	(1,703,064)	(653,972)
Bequests/planned giving	15,645,643	4,407,779	20,053,422	17,962,022
Total direct public support	27,924,419	23,663,653	51,588,072	48,628,744
Federated campaigns	384,917	233	385,150	283,140
United Way	95,935	630	96,565	190,977
Total indirect public support	480,852	863	481,715	474,117
Total public support	28,405,271	23,664,516	52,069,787	49,102,861
Government grants	202,099	-	202,099	5,447,679
Investment return for operations	2,885,008	3,455,914	6,340,922	4,462,862
Conferences, sales, other revenue, gains and (losses), net	3,000,074	-	3,000,074	5,231,792
Total other revenue, gains and losses	6,087,181	3,455,914	9,543,095	15,142,333
Net assets released from restrictions	26,757,582	(26,757,582)	-	-
<b>Total Revenues, Gains and Public Support</b>	<b>61,250,034</b>	<b>362,848</b>	<b>61,612,882</b>	<b>64,245,194</b>
<b>Expenses</b>				
Research	13,705,480	-	13,705,480	14,079,634
Public health education	16,444,558	-	16,444,558	21,669,893
Professional education and training	842,726	-	842,726	1,133,805
Patient and community services	9,987,009	-	9,987,009	10,979,825
Fundraising	5,671,747	-	5,671,747	7,179,451
Management and general	4,825,768	-	4,825,768	6,004,566
<b>Total Expenses</b>	<b>51,477,288</b>	<b>-</b>	<b>51,477,288</b>	<b>61,047,174</b>
Change in net assets from operating activities	9,772,746	362,848	10,135,594	3,198,020
<b>Non-operating Income</b>				
Net realized and unrealized gains on investments	3,788,610	5,206,535	8,995,145	5,002,171
Change in value of split interest agreements	-	5,387,760	5,387,760	2,955,678
Realized gain on the sale of property and equipment	301,868	-	301,868	-
Net change in pension liabilities	(191,951)	-	(191,951)	119,540
Transfer of assets	(293,129)	293,129	-	-
Change in net assets from non-operating activities	3,605,398	10,887,424	14,492,822	8,077,389
<b>Change in Net Assets</b>	<b>13,378,144</b>	<b>11,250,272</b>	<b>24,628,416</b>	<b>11,275,409</b>
<b>Net Assets, beginning of year</b>	<b>\$ 47,830,924</b>	<b>\$ 118,634,558</b>	<b>\$ 166,465,482</b>	<b>\$ 155,190,073</b>
<b>Net Assets, end of year</b>	<b>\$ 61,209,068</b>	<b>\$ 129,884,830</b>	<b>\$ 191,093,898</b>	<b>\$ 166,465,482</b>

See the accompanying notes to the financial statements.

# Arthritis Foundation, Inc.

## Statement of Activities

<i>Year ended December 31, 2020</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Gains and Public Support</b>			
Direct response marketing contributions	\$ 9,389,583	\$ 150	\$ 9,389,733
Corporate contributions	218,600	7,987,122	8,205,722
Personal contributions	1,258,777	291,902	1,550,679
Foundations	830,771	1,341,794	2,172,565
Memorials	80,153	4,360	84,513
Other gifts	81,808	37,422	119,230
<b>Total contributions</b>	<b>11,859,692</b>	<b>9,662,750</b>	<b>21,522,442</b>
Special events - gross income	-	9,798,252	9,798,252
Less direct donor benefit costs	-	(653,972)	(653,972)
Bequests/planned giving	15,830,151	2,131,871	17,962,022
<b>Total direct public support</b>	<b>27,689,843</b>	<b>20,938,901</b>	<b>48,628,744</b>
Federated campaigns	275,067	8,073	283,140
United Way	173,552	17,425	190,977
<b>Total indirect public support</b>	<b>448,619</b>	<b>25,498</b>	<b>474,117</b>
<b>Total public support</b>	<b>28,138,462</b>	<b>20,964,399</b>	<b>49,102,861</b>
Government grants	5,333,261	114,418	5,447,679
Investment return for operations	1,043,507	3,419,355	4,462,862
Conferences, sales, other revenue, gains and (losses), net	4,800,519	431,273	5,231,792
<b>Total other revenue, gains and losses</b>	<b>11,177,287</b>	<b>3,965,046</b>	<b>15,142,333</b>
Net assets released from restrictions	36,474,577	(36,474,577)	-
<b>Total Revenues, Gains and Public Support</b>	<b>75,790,326</b>	<b>(11,545,132)</b>	<b>64,245,194</b>
<b>Expenses</b>			
Research	14,079,634	-	14,079,634
Public health education	21,669,893	-	21,669,893
Professional education and training	1,133,805	-	1,133,805
Patient and community services	10,979,825	-	10,979,825
Fundraising	7,179,451	-	7,179,451
Management and general	6,004,566	-	6,004,566
<b>Total Expenses</b>	<b>61,047,174</b>	<b>-</b>	<b>61,047,174</b>
Change in net assets from operating activities	14,743,152	(11,545,132)	3,198,020
<b>Non-operating Income</b>			
Net realized and unrealized gains on investments	401,023	4,601,148	5,002,171
Change in valuation of split interest agreements	-	2,955,678	2,955,678
Net change in pension liabilities	119,540	-	119,540
<b>Change in net assets from non-operating activities</b>	<b>520,563</b>	<b>7,556,826</b>	<b>8,077,389</b>
<b>Change in Net Assets</b>	<b>15,263,715</b>	<b>(3,988,306)</b>	<b>11,275,409</b>
<b>Net Assets, beginning of year</b>	<b>\$ 32,567,209</b>	<b>\$ 122,622,864</b>	<b>\$ 155,190,073</b>
<b>Net Assets, end of year</b>	<b>\$ 47,830,924</b>	<b>\$ 118,634,558</b>	<b>\$ 166,465,482</b>

See the accompanying notes to the financial statements.

# Arthritis Foundation, Inc.

## Statement of Functional Expenses

Year ended December 31, 2021	Program Services				Supporting Services				Total
	Research	Public	Professional	Patient and	Total	Fundraising	Management	Total	
		Health	Education	Community	Program		and	Supporting	
	Education	and Training	Services	Services	General	Services			
Research awards and grants	\$ 10,865,272	\$ 49,223	\$ -	\$ 190,079	\$ 11,104,574	\$ -	\$ -	\$ -	\$ 11,104,574
Salaries	1,069,041	6,020,341	321,556	3,908,126	11,319,064	2,639,826	2,104,330	4,744,156	16,063,220
Payroll taxes	60,336	459,666	25,197	294,551	839,750	196,348	158,183	354,531	1,194,281
Employee benefits	130,748	1,054,492	57,979	756,258	1,999,477	396,883	327,749	724,632	2,724,109
Professional fees and contract services	216,256	1,301,453	147,409	1,213,206	2,878,324	1,054,302	1,199,411	2,253,713	5,132,037
Supplies	4,391	33,810	3,814	51,009	93,024	21,416	29,025	50,441	143,465
Printing, publications, and artwork	1,625	56,269	2,552	53,125	113,571	19,934	10,450	30,384	143,955
Membership/direct response marketing	237,323	4,426,733	189,599	616,522	5,470,177	744,416	426,598	1,171,014	6,641,191
Postage, shipping, and delivery	1,804	26,251	1,495	58,683	88,233	11,302	8,149	19,451	107,684
Telephone	9,253	60,817	13,048	60,071	143,189	62,161	128,616	190,777	333,966
Occupancy	142,630	925,234	30,697	813,935	1,912,496	251,440	121,581	373,021	2,285,517
Insurance	92,919	160,028	-	237,461	490,408	15,487	10,324	25,811	516,219
Staff travel	7,363	64,621	6,286	43,871	122,141	21,010	18,809	39,819	161,960
Meetings and conferences	107,593	43,461	8,422	73,889	233,365	7,927	19,545	27,472	260,837
Equipment lease and maintenance	63,643	122,338	11,458	171,555	368,994	57,967	130,308	188,275	557,269
Membership dues and subscriptions	16,593	56,978	1,225	32,292	107,088	21,729	14,771	36,500	143,588
Specific assistance to individuals	-	-	-	373	373	-	-	-	373
Advertising	39,987	616,025	16,467	77,741	750,220	31,465	37,626	69,091	819,311
Depreciation	261,193	449,832	-	667,493	1,378,518	43,532	29,021	72,553	1,451,071
Uncollectible receivables	275,426	269,400	-	399,755	944,581	26,071	17,381	43,452	988,033
Other	102,084	247,586	5,522	267,014	622,206	48,531	33,891	82,422	704,628
<b>Total Expenses</b>	<b>\$ 13,705,480</b>	<b>\$ 16,444,558</b>	<b>\$ 842,726</b>	<b>\$ 9,987,009</b>	<b>\$ 40,979,773</b>	<b>\$ 5,671,747</b>	<b>\$ 4,825,768</b>	<b>\$ 10,497,515</b>	<b>\$ 51,477,288</b>

See the accompanying notes to the financial statements.

# Arthritis Foundation, Inc.

## Statement of Functional Expenses

	Program Services				Supporting Services				Total
	Research	Public Health Education	Professional Education and Training	Patient and Community Services	Total Program Services	Fundraising	Management and General	Total Supporting Services	
<i>Year ended December 31, 2020</i>									
Research awards and grants	\$ 10,918,918	\$ -	\$ -	\$ 76,819	\$ 10,995,737	\$ -	\$ -	\$ -	\$ 10,995,737
Salaries	1,065,269	8,671,765	474,663	5,207,838	15,419,535	3,635,299	2,979,939	6,615,238	22,034,773
Payroll taxes	77,100	710,017	39,287	422,864	1,249,268	291,524	236,667	528,191	1,777,459
Employee benefits	149,240	1,685,366	94,242	1,066,249	2,995,097	676,793	536,387	1,213,180	4,208,277
Advertising commissions	-	18,559	-	-	18,559	81,638	11,133	92,771	111,330
Professional fees and contract services	511,823	1,459,456	161,624	708,309	2,841,212	816,187	1,174,250	1,990,437	4,831,649
Supplies	3,744	52,060	5,198	50,702	111,704	30,299	39,264	69,563	181,267
Printing, publications, and artwork	21,851	844,254	25,813	69,976	961,894	66,800	32,027	98,827	1,060,721
Membership/direct response marketing	418,915	4,531,098	219,931	293,241	5,463,185	809,098	251,349	1,060,447	6,523,632
Postage, shipping, and delivery	18,920	885,706	13,837	96,260	1,014,723	27,502	28,207	55,709	1,070,432
Telephone	10,860	80,953	20,019	71,122	182,954	93,016	202,906	295,922	478,876
Occupancy	145,901	1,072,513	37,095	884,441	2,139,950	299,437	143,982	443,419	2,583,369
Insurance	84,802	146,048	-	216,717	447,567	14,134	9,422	23,556	471,123
Staff travel	13,446	182,823	11,478	96,987	304,734	72,140	77,769	149,909	454,643
Meetings and conferences	23,907	88,170	1,782	152,334	266,193	23,786	12,920	36,706	302,899
Equipment lease and maintenance	68,053	131,350	12,732	183,817	395,952	63,968	144,503	208,471	604,423
Membership dues and subscriptions	21,416	76,305	2,254	47,596	147,571	23,202	16,781	39,983	187,554
Specific assistance to individuals	-	-	-	8,451	8,451	-	-	-	8,451
Advertising	6,440	83,530	5,103	76,683	171,756	20,509	14,017	34,526	206,282
Depreciation	234,330	403,569	-	598,845	1,236,744	39,055	26,037	65,092	1,301,836
Uncollectible receivables	192,207	352,722	6,916	402,639	954,484	54,862	42,519	97,381	1,051,865
Other	92,492	193,629	1,831	247,935	535,887	40,202	24,487	64,689	600,576
<b>Total Expenses</b>	<b>\$ 14,079,634</b>	<b>\$ 21,669,893</b>	<b>\$ 1,133,805</b>	<b>\$ 10,979,825</b>	<b>\$ 47,863,157</b>	<b>\$ 7,179,451</b>	<b>\$ 6,004,566</b>	<b>\$ 13,184,017</b>	<b>\$ 61,047,174</b>

See the accompanying notes to the financial statements.

# Arthritis Foundation, Inc.

## Statements of Cash Flows

<i>Years ended December 31,</i>	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 24,628,416	\$ 11,275,409
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	1,451,072	1,301,836
Gain on sale of property and equipment	(301,868)	-
Net realized and unrealized gains on investments	(8,995,145)	(5,002,171)
Net change in valuation of split interest agreements	(5,387,760)	(2,955,678)
Change in operating assets and liabilities:		
Accounts and notes receivable	635,655	1,297,832
Contributions receivable	218,699	1,627,206
Prepaid expenses and other assets	32,647	194,613
Inventory	58,586	(16,314)
Split interest assets and liabilities	1,419,567	684,507
Accounts payable	432,750	(1,535,387)
Accrued expenses and other liabilities	(2,420,828)	(1,290,599)
Research awards and grants payable	2,543,211	2,047,512
Proceeds from Paycheck Protection Program Loan ("PPP")	-	5,315,400
PPP loan forgiveness	-	(5,315,400)
<b>Net cash provided by operating activities</b>	<b>14,315,002</b>	<b>7,628,766</b>
Cash flows from investing activities:		
Purchase of property and equipment	(689,738)	(1,035,504)
Net proceeds from sale of property and equipment	568,318	-
Purchase of investments	(22,498,317)	(15,002,602)
Proceeds from sale of investments	9,412,860	25,922,372
<b>Net cash (used in) provided by investing activities</b>	<b>(13,206,877)</b>	<b>9,884,266</b>
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program Loan ("PPP")	2,000,000	-
Payments on split interest agreements	(1,067,744)	(1,058,662)
<b>Net cash provided by (used in) financing activities</b>	<b>932,256</b>	<b>(1,058,662)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,040,381</b>	<b>16,454,370</b>
Cash and cash equivalents, beginning of year	27,397,242	10,942,872
<b>Cash and cash equivalents, end of year</b>	<b>\$ 29,437,623</b>	<b>\$ 27,397,242</b>

*See the accompanying notes to the financial statements.*

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### 1. Description of Organization

The Arthritis Foundation, Inc. (the “Foundation”) is a voluntary health agency seeking to improve lives through leadership in the prevention, control and cure of arthritis and arthritis-related diseases. Major funding sources are from direct public contributions and bequests. The Foundation provides public health education and community service programs along with supporting arthritis-related research and influencing public policy regarding research funding, access to care and government funding of arthritis-related public health programs. The Arthritis Foundation operates under Section 501(c)(3) of the Internal Revenue Code.

### 2. Summary of Significant Accounting Policies

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

#### *Basis of Accounting*

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

#### *Basis of Presentation*

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

*Net assets without donor restrictions* - Net assets that are not subject to donor-imposed stipulations.

*Net assets with donor restrictions* - Net assets subject to stipulations imposed by donor and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor-imposed restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets with donor restrictions (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. The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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Operating results in the statements of activities reflect all transactions increasing and decreasing net assets except those that the Foundation defines as non-operating. Non-operating includes all investment returns in excess of those classified as operating by the spending policy, unrealized gains and losses from operating accounts, changes in valuation of split interest agreements, and net changes in pension liabilities.

### *Concentrations of Risk*

Financial instruments, which potentially subject the Foundation to concentrations of credit and market risk, consist principally of cash and cash equivalents and marketable securities held at creditworthy financial institutions. At December 31, 2021 and 2020, the Foundation's uninsured cash balance totaled \$26,862,858 and \$14,618,481, respectively. Cash and cash equivalents are maintained at large multi-state financial institutions and credit exposure is limited to the amount of deposits at any one institution in excess of the federally insured limit. The Foundation has not experienced any losses in such accounts. The Foundation's marketable securities do not represent significant concentrations of market risk as the marketable securities portfolio is diversified among a variety of issuers.

Investment securities and real estate held as investments that are not publicly traded are exposed to several risks, such as interest rate, market, liquidity and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term and that such change could materially affect the amounts reported in the Foundation's statement of financial position and statement of activities.

### *Cash and Cash Equivalents*

The Foundation's cash equivalents are highly liquid investments with an original maturity of three months or less at the date of purchase. Because of the short maturity of these financial instruments, the carrying value approximates the fair value.

### *Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. In the case of certain less marketable securities, fair value is established by using net asset value ("NAV") of each investment fund as provided by the investment fund manager. 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 are 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. Investment return is presented net of investment fees.

### *Accounts Receivable*

Accounts receivables consist of transactions arising from contracts with customers, primarily related to advertising receivables and sales and service fees and are recorded at the amount expected to ultimately be collected, net of an allowance for doubtful accounts when deemed necessary. Management regularly assesses collectability and determines write offs as necessary. Amounts are considered past due if they are not received within one year after the expected payment date.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### *Contributions Receivable*

Contributions, including unconditional promises to give, are recorded at the date of gift. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. 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. An allowance for doubtful accounts on outstanding 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.

Conditional promises to give are not recognized in the statements of activities until the conditions are substantially met.

### *Inventory*

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

### *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 calculated 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. Estimated useful lives are ten to thirty years for buildings and improvements, the lesser of the lease term or three to ten years for leasehold improvements and three to five years for furniture and other equipment.

### *Split Interest Agreements*

*Charitable Gift Annuities and Other Split Interest Agreements under which the Foundation is the Trustee* - Such amounts are valued at the date of donation using the income method and discount rates commensurate with the risks involved. Discount rates range from three to ten percent. Charitable gift annuities are amortized over their life although changes may be made based on a change in the life expectancy of the donor. Gift annuity assets are included in split interest agreements and amounts due to the donor are included in liabilities under split interest agreements.

*Charitable Gift Annuities and Other Split Interest Agreements under which the Foundation is not the Trustee* - The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The Foundation has legally enforceable rights or claims to such assets, including the right to income therefrom. Under the perpetual trust arrangements, the Foundation has recorded the assets and recognized donor restricted contribution revenue at the fair value of its beneficial interest in the trust assets. Distributions received on the trust assets are recorded as investment income in the statement of activities unless otherwise restricted by the donor. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as net unrealized gains or losses on beneficial interest in perpetual trusts in net assets with donor restrictions.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### *Impairment of Long-Lived Assets*

The Foundation reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced to its current fair value. There were no long-lived assets that were impaired during the years ended December 31, 2021 and 2020.

### *Fair Value of Financial Instruments*

The carrying amounts of cash and accounts receivable, which qualify as financial assets and accounts payable which qualify as financial liabilities, approximate fair value due to the relative terms of these financial instruments.

The carrying values, which approximate fair values of investments and split interest agreements are determined as described in Note 4.

The carrying amounts of other liabilities and contributions receivable approximate fair value since these instruments are recorded at net present value.

### *Research Awards and Grants Payable*

Research awards and grants made to other organizations that are conditional in nature are not recorded as expenses until any conditions has been satisfied. As conditions are satisfied, expenses are recorded in the statement of activities and the research award and grants payable liability is reduced. For research and grant awards that are unconditional in nature, expenses are recorded in the statement of activities at the time sufficient evidence that a promise to give was made by the Foundation and received by the grantee. The research awards and grants payable balance as of December 31, 2021 represents ongoing awards as well as new awards to other organizations made during 2021.

### *Functional Allocation*

The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. The Foundation uses a weighted-average methodology to allocate occupancy, interest, insurance and depreciation cost. Salaries are allocated on the basis of time and effort.

The Foundation's significant revenue recognition policies are outlined below.

### *Contracts with Customers Accounted for in Accordance with ASC 606, Revenue from Contracts with Customers*

The Foundation recognizes revenue when it satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration the Foundation expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, then the Foundation combines it with other performance obligations until a distinct bundle of goods or services exists. For the following items, disaggregated by type, performance obligations are satisfied over time and the related revenue is recognized as services are rendered.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### *Ease of Use*

The Ease of Use Commendation Program encourages manufacturers to design user-friendly products and packaging that are easy to use by people with functional limitations such as those with arthritis. Agreements between the company and the Arthritis Foundation for use of the seal are normally three-year agreements. These agreements are classified as exchange transactions and the fees are recognized as earned. Total revenue recognized for the years ended December 31, 2021 and 2020, related to Ease of Use contracts was \$640,418 and \$680,834, respectively, and is included in conferences, sales, other revenue, gains and (losses) within the statements of activities.

### *Revenue Accounted for in Accordance with ASC 605 Topic 958: Not-For-Profit Entities*

The Foundation's other revenue streams are outside the scope of ASC 606, and thus are accounted for under ASC 605 Topic 958. For the following items, disaggregated by type, revenue is recognized depending on whether the transactions are considered conditional or unconditional gifts or promises to give at the time that the gift or promise is made.

### *Contributions Revenue*

The Foundation receives support from individuals, foundations and corporations, in support of the Foundation's mission. Contribution revenue is recognized at fair value on the earlier of the receipt of cash or an unconditional promise to give. From time to time, the Foundation receives promises to give that have certain conditions such as meeting specific performance-related barriers or limit the discretion on the Foundation's use of the funds. Other contributions may have revocable features to the promise to give. Conditional promises to give are recognized when the conditions are substantially met.

### *Contributed Goods and In-Kind Services*

Contributed goods and services are reflected as both contribution revenue and expenses in the accompanying statement of activities at their estimated fair value at date of receipt. Existing contributed goods and gifts of property and equipment are reflected as support without donor restrictions unless explicit donor stipulations specify how the donated goods must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Foundation receives services from a large number of volunteers who give significant amounts of their time to the Foundation's programs, fundraising campaigns and management. 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, advertising, consulting, and printing services and other services that meet the criteria for recognition as contributed services. No amounts were recorded as revenue and expense for donated services and assets for the years ended December 31, 2021 and 2020.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### *Special Events and Direct Mail*

Special Events and Direct Mail revenue are recognized as revenue in the period received or upon receipt of an unconditional promise to give; conditional promises to give are not recognized until the required conditions have been substantially met. Some Special Event contracts have elements of both promises to give and performance obligations. Management evaluates all such contracts to determine the amount of value to allocate to the performance obligations for further accounting under ASC 606 Revenue from Contracts with Customers. At December 31, 2021 and 2020, the Foundation assessed such elements as immaterial to the overall gift value.

### *Government Grants and Contracts*

Grants awarded by federal agencies or passed through to the Foundation from another donor that received funding from the United States (“U.S.”) federal government are generally considered nonreciprocal transactions restricted by the awarding agency for certain purposes, and thus are treated as conditional contributions. Revenue is recognized when qualified expenditures are incurred and conditions under the grant agreement are met. U.S. federal grant revenue totaled \$202,099 for the year ended December 31, 2021 and \$5,447,679 for the year ended December 31, 2020. Refer to Note 16 for additional information on government grant income.

### *Income Taxes*

The Foundation is exempt from Federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code. With respect to any unrelated business income generated by the Foundation, it records income taxes using the liability method under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the period that the deferred tax asset or liability is expected to be realized or to be settled. As of December 31, 2021 and 2020, the Foundation had no deferred tax assets or liabilities or any uncertain tax positions.

### *Use of Estimates*

Management of the Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with GAAP. Actual results could differ from these estimates.

### *Reclassifications*

Certain items in the 2020 financial statements have been reclassified to conform to the 2021 presentation. There was no modification to changes in net assets or any net asset balances as a result of the reclassifications.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### *Accounting Pronouncements Issued but Not Yet Adopted*

In February 2016, the Federal Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). The amendments in ASU 2016-02 created FASB ASC Topic 842, *Leases*, and superseded the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. On April 8, 2020, the FASB voted to defer the effective date of ASU 2016-02 by one additional year. The ASU is now effective for the Foundations’ fiscal year ended December 31, 2022. The Foundation is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets* (“ASU 2020-07”), to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations through enhancements to presentation and disclosure. ASU 2020-07 was issued to address certain stakeholders’ concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profits as well as the amount of those contributions used in an entity’s programs and other activities. The standard is effective for annual reporting periods beginning after June 15, 2021 and should be applied on a retrospective basis. The Foundation does not expect ASU 2020-07 to materially impact the financial statements and related disclosures since the gifts-in-kind have totaled \$0 in recent years.

### **3. Liquidity and Availability of Resources**

As of December 31, 2021 and 2020, financial assets and liquidity resources available within one year for general expenditures are as follows:

<b>Financial Assets and Liquidity Resources</b>	<b>2021</b>
Financial Assets:	
Cash and cash equivalents	\$ 28,334,631
Investments	49,444,267
Accounts and notes receivable, net	299,291
Contributions receivable, net	7,142,087
<b>Total financial assets available within one year</b>	<b>\$ 85,220,276</b>
Liquidity Resources:	
Line of credit	\$ 14,000,000
<b>Financial assets and liquidity resources available to meet cash needs for general expenditures within one year</b>	<b>\$ 99,220,276</b>

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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<b>Financial Assets and Liquidity Resources</b>	<b>2020</b>
<b>Financial Assets:</b>	
Cash and cash equivalents	\$ 26,330,611
Investments	33,116,454
Accounts and notes receivable, net	934,946
Contributions receivable, net	6,268,163
<b>Total financial assets available within one year</b>	<b>\$ 66,650,174</b>
<b>Liquidity Resources:</b>	
Line of credit	\$ 14,000,000
<b>Financial assets and liquidity resources available to meet cash needs for general expenditures within one year</b>	<b>\$ 80,650,174</b>

The Foundation's financial assets not available for general use due to donor-imposed restrictions within one year of the balance sheet date, including amounts set aside for long-term investing in endowment funds, have been excluded from the available amounts within the tables above.

The Foundation's endowment consists of donor-restricted endowment funds as well as funds specified by donors as restricted for research and specific programs. Therefore, these funds are not available for general expenditures. As described in Note 9, without specific Board action the endowment funds have a spending rate of 4.25 percent, which does not require specific Board action for approval.

As part of the Foundation's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash in excess of daily requirements are invested in short-term investments and money market funds. The Foundation has a revolving line of credit of \$14,000,000 to assist with working capital needs. As of December 31, 2021 and 2020, the Foundation had no outstanding balance on the line of credit.

#### **4. Fair Value Measurements**

The Foundation applies ASC 820, *Fair Value Measurement*, for fair value measurements of financial and nonfinancial assets and financial liabilities. The Foundation's estimates of fair value for financial assets and liabilities are based on the framework established in ASC 820, which considers the inputs used in valuation, gives the highest priority to quoted prices in active markets, and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs relative to the valuation observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority is given to unobservable inputs that reflect The Foundation's significant market assumptions. The three level of the hierarchy are further described as follows:

# Arthritis Foundation, Inc.

## Notes to Financial Statements

**Level I** - Quoted prices for identical instruments in active markets. This category includes domestic and international debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

**Level II** - Inputs other than quoted prices included in Level I that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.), or inputs derived principally from or corroborated by observable market data by correlation or other means. This category includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities that are valued based on market prices for similar and actively traded investments.

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

The following table summarizes the Foundation's investments and split interest agreements by the above hierarchy levels as of December 31:

	Fair Value at December 31, 2021				
	Level I	Level II	Level III	NAV <sup>1</sup>	Total
Investments and split interest agreements					
held by the Foundation					
Domestic equity mutual funds	\$ 45,931,255	\$ -	\$ -	\$ -	\$ 45,931,255
Fixed income mutual funds	26,488,656	-	-	-	26,488,656
International equity mutual funds	25,049,022	-	-	-	25,049,022
Balanced mutual funds	43,329	-	-	-	43,329
Preferred stock	1,000	-	-	-	1,000
Alternative investments	1,065,079	-	-	-	1,065,079
Private investments	-	-	-	2,121,039	2,121,039
Hedge funds	-	-	-	9,005,911	9,005,911
Real estate funds	249,667	-	-	-	249,667
Other commodities	4,628,307	-	-	-	4,628,307
Other - principally money market and other mutual funds	3,943,759	-	130	-	3,943,889
Total investments and split interest agreements					
held by the Foundation	107,400,074	-	130	11,126,950	118,527,154
Split interest agreements held by third parties	-	-	54,131,472	-	54,131,472
Total	\$ 107,400,074	\$ -	\$ 54,131,602	\$ 11,126,950	\$ 172,658,626

# Arthritis Foundation, Inc.

## Notes to Financial Statements

	Fair Value at December 31, 2020				
	Level I	Level II	Level III	NAV <sup>1</sup>	Total
Investments and split interest agreements					
held by the Foundation					
Domestic equity mutual funds	\$ 32,000,069	\$ -	\$ -	\$ -	\$ 32,000,070
Fixed income mutual funds	32,178,165	-	-	-	32,178,164
International equity mutual funds	24,080,062	-	-	-	24,080,062
Balanced mutual funds	39,068	-	-	-	39,068
Preferred stock	1,000	-	-	-	1,000
Alternative investments	1,063,353	-	-	-	1,063,353
Private investments	-	-	-	786,306	786,306
Hedge funds	3,172,870	-	-	-	3,172,870
Real estate funds	111,052	-	-	-	111,052
Other commodities	2,431,521	-	130	-	2,431,651
Other - principally money market and other mutual funds	388,801	-	-	-	388,801
Total investments and split interest					
agreements held by the Foundation	95,465,961	-	130	786,306	96,252,397
Split interest agreements held by third parties					
	-	-	49,398,245	-	49,398,245
Total	\$ 95,465,961	\$ -	\$ 49,398,375	\$ 786,306	\$ 145,650,642

<sup>1</sup>Net Asset Valuation (“NAV”) column above represents the Foundation’s ownership interest in investment vehicles that are not publicly traded. As a practical expedient, the Foundation uses its ownership interest in the NAV to determine the fair value of all alternative investments that do not have a readily determinable fair value and have financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. These NAVs are provided by an independent, third-party administrator, and each vehicle also has an audit completed yearly.

The Foundation’s split interest agreements held by third parties hold assets valued at NAV. The Foundation’s interests in the trusts are not redeemable and any distributions are at the discretion of the trustees. As such, the Foundation’s split interest agreements held by third parties are classified within Level 3 of the above tables.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### Redemption Information for Assets Valued at NAV Fair Value as of December 31, 2021

Classification	NAV	Redemption Terms	Days' Notice
Private investments	\$ 2,121,039	Not Redeemable	N/A
Hedge funds	9,005,911	Quarterly	70 Days
<b>Total Assets Valued at NAV</b>	<b>\$ 11,126,950</b>		

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### Redemption Information for Assets Valued at NAV Fair Value as of December 31, 2020

Classification	NAV	Redemption Terms	Days' Notice
Private investments	\$ 786,306	Not Redeemable	N/A
<b>Total Assets Valued at NAV</b>	<b>\$ 786,306</b>		

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With respect to valuation methodologies at December 31, 2021 and 2020, to the extent that the Foundation directly owns and controls the investment, valuation is based on unadjusted quoted prices for identical assets in active markets that the Foundation can access. For other investments, predominately "alternative investments" (including private equity, alternative hedge strategies and real assets), the Foundation utilizes the NAV reported by each of the alternative funds and external investment managers as a practical expedient for determining the fair value of the investment. These investments are redeemable at NAV under the original terms of the agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Foundation's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Foundation's interest in the funds.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### 5. Investments

Investments at fair value were as follows at:

<i>December 31,</i>	<b>2021</b>	<b>2020</b>
Domestic equity mutual funds	\$ 40,460,039	\$ 26,308,103
Fixed income mutual funds	22,033,396	27,735,417
International equity mutual funds	21,718,963	21,013,780
Balanced mutual funds	43,329	39,068
Preferred stock	1,000	1,000
Alternative investments	1,065,079	1,063,353
Private investments	2,121,039	786,306
Hedge funds	9,005,911	3,172,870
Other commodities	4,628,437	2,431,651
Other - principally money market and other mutual funds	3,938,250	383,293
<b>Total Investments</b>	<b>\$ 105,015,443</b>	<b>\$ 82,934,841</b>

At December 31, 2021 and 2020, the Foundation's operating investments of \$48,637,792 and \$32,158,081, respectively, were secured as collateral for the line of credit, further described in Note 15.

### 6. Contributions Receivable

The Foundation had the following contributions receivable at:

<i>December 31,</i>	<b>2021</b>	<b>2020</b>
Amounts due in:		
Less than one year	\$ 11,395,196	\$ 11,084,231
One to five years	218,917	743,120
Gross contributions receivable	11,614,113	11,827,351
Allowance for doubtful accounts	(147,893)	(122,931)
Unamortized present value discount	(8,035)	(27,536)
<b>Total Contributions receivable, net</b>	<b>\$ 11,458,185</b>	<b>\$ 11,676,884</b>

Discounts on contributions receivable were calculated at the date of donation using rates commensurate with the risks involved (1% to 7%).

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### 7. Split Interest Agreements

Split interest agreements at fair value were as follows at:

<i>December 31,</i>	<b>2021</b>	<b>2020</b>
Split interest agreements held by the Foundation		
Real estate funds	\$ 249,667	\$ 111,052
Domestic equity mutual funds	5,476,725	5,697,474
Fixed income mutual funds	4,455,260	4,442,748
International equity mutual funds	3,330,059	3,066,282
<b>Total split interest agreements held by the Foundation</b>	<b>13,511,711</b>	<b>13,317,556</b>
Split interest agreements held by third parties		
Charitable remainder trusts	6,792,336	5,928,668
Other perpetual trusts	47,339,136	43,469,577
<b>Total split interest agreements held by third parties</b>	<b>54,131,472</b>	<b>49,398,245</b>
<b>Total Split interest agreements</b>	<b>\$ 67,643,183</b>	<b>\$ 62,715,801</b>

Cash balances of \$554,903 and \$148,707 held within split interests under which the Foundation is trustee are presented as cash and cash equivalents in the statements of financial position as of December 31, 2021 and 2020, respectively.

These assets are reported on the statement of financial position and are valued at estimated fair value. Liabilities under split interest agreements for which the Foundation is the trustee were \$7,290,771 and \$7,399,326 at December 31, 2021 and 2020, respectively, and were valued at the date of donation using the income approach at discount rates commensurate with the risk involved (between three and 10%). 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.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### 8. Property and Equipment

Property and equipment consisted of the following at:

<i>December 31,</i>	<b>2021</b>		<b>2020</b>	
Land	\$	<b>432,000</b>	\$	509,000
Buildings and improvements		<b>2,047,717</b>		2,329,727
Leasehold improvements		<b>2,346,955</b>		2,570,704
Furniture and other equipment		<b>6,134,583</b>		5,469,646
Total property and equipment		<b>10,961,255</b>		10,879,077
Accumulated depreciation		<b>(6,761,756)</b>		(5,651,794)
<b>Total Property and equipment, net</b>	<b>\$</b>	<b>4,199,499</b>	<b>\$</b>	<b>5,227,283</b>

Depreciation expense was \$1,451,072 and \$1,301,836 for the years ended December 31, 2021 and 2020, respectively.

In January 2021, the Foundation sold its office building in Columbus, OH for \$611,000, with net proceeds of \$568,318 after closing costs. The book value of the asset was \$266,450, resulting in a gain on the sale of \$301,868. The Foundation is currently evaluating its remaining real properties with a cost of \$2,479,717 and book value of \$1,167,556 for potential sale in the future. The Foundation also had other immaterial sales during the years ended December 31, 2021 and 2020, respectively.

### 9. Endowment Funds

The Foundation's endowment consists of a number of individual funds established for research, specific programs and operations. The Foundation understands the law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation classifies as net assets with donor restrictions (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 funds in excess of the original fair value are classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation or the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policy of the Foundation

If the market value of any fund classified as net assets with donor restrictions at year-end is below the amount determined to be permanently restricted, the deficit, which cannot be funded from restricted unspent earnings of the fund, is reported as a reduction in net assets with donor restrictions. There were no such deficiencies for the years ended December 31, 2021 and 2020, respectively.

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

Foundation policy requires endowment assets to be governed by a spending policy that seeks to distribute a specific payout rate of the endowment base to support the Foundation's programs. The endowment base is defined as a three-year moving average of the market value of the total endowment portfolio (calculated as of the last day of December for the prior three years). Without specific Board action to either increase or decrease the payout rate, the Foundation's annual investment income payout distribution is calculated at a rate of 4.25% of the rolling three year average fair market value of the investments plus amounts paid for share on investment income. The policy allows for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowment.

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.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

The endowment is divided into three broad asset classes: equity fund, fixed income fund and cash or near-cash fund. The purpose of dividing the endowment fund in this way is to ensure that the optimal long-term return is achieved given the Foundation's risk preference. The endowment is diversified both by asset class (equity, fixed income and cash) and within asset class (large capitalization stocks, small capitalization stocks, U.S. Treasury bonds, corporate bonds, etc.). The purpose of diversification is to provide reasonable assurance that no single security or class of securities has a disproportionate impact on the total endowment and to reduce the overall risk and volatility of the entire portfolio. The total endowment is monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and asset allocation with respect to target percentages. There were no endowment net assets without donor restrictions for the years ended December 31, 2021 and 2020.

### *Changes in Endowment Net Assets*

The composition of and changes to donor restricted endowment net assets for the years ended December 31, 2021 and 2020 are as follows:

<i>Year ended December 31, 2021</i>	With Donor Restrictions Time or Purpose	With Donor Restrictions In Perpetuity	Total
Endowment net assets, December 31, 2020	\$ 13,325,672	\$ 39,165,271	\$ 52,490,943
Investment return income	1,367,756	-	1,367,756
Net appreciation (realized and unrealized)	5,350,792	-	5,350,792
Appropriation of endowment assets for expenditure	(2,020,251)	-	(2,020,251)
<b>Endowment net assets, December 31, 2021</b>	<b>\$ 18,023,969</b>	<b>\$ 39,165,271</b>	<b>\$ 57,189,240</b>

<i>Year ended December 31, 2020</i>	With Donor Restrictions Time or Purpose	With Donor Restrictions In Perpetuity	Total
Endowment net assets, December 31, 2019	\$ 9,750,767	\$ 39,165,271	\$ 48,916,038
Investment return income	819,690	-	819,690
Net appreciation (realized and unrealized)	4,703,430	-	4,703,430
Appropriation of endowment assets for expenditure	(1,948,215)	-	(1,948,215)
<b>Endowment net assets, December 31, 2020</b>	<b>\$ 13,325,672</b>	<b>\$ 39,165,271</b>	<b>\$ 52,490,943</b>

# Arthritis Foundation, Inc.

## Notes to Financial Statements

### 10. Net Assets - with Donor Restrictions

The amounts included as net assets with donor restrictions consist of the following at:

<i>December 31,</i>	<b>2021</b>	<b>2020</b>
Purpose and time restricted net assets		
Purpose restricted		
Education	\$ 5,159,998	\$ 4,825,961
Operations	34,510,256	24,989,521
Scholarship	891,842	408,243
Programs/trainings	11,569,006	9,916,993
Research	29,711,136	29,183,338
Time restricted		
Split interest agreements	6,775,842	6,066,938
Other time restricted net assets	2,101,479	4,078,293
Total purpose and time restricted net assets	<b>90,719,559</b>	<b>79,469,287</b>
Perpetual Endowments		
Research	9,856,632	9,856,632
Operations	26,191,762	26,191,762
Scholarship	1,457,400	1,457,400
Programs	1,659,477	1,659,477
Total net assets with donor restrictions to be held in perpetuity	<b>39,165,271</b>	<b>39,165,271</b>
<b>Total Net assets with donor restrictions</b>	<b>\$129,884,830</b>	<b>\$ 118,634,558</b>

### 11. Joint Costs

In 2021 and 2020, the Foundation incurred joint costs of \$4,871,233 and \$4,920,153, respectively, for informational materials and activities that included fundraising appeals, such as the Foundation's direct mail. Joint costs were allocated as follows:

<i>December 31,</i>	<b>2021</b>	<b>2020</b>
Public health education	\$ 3,507,288	\$ 3,542,510
Fundraising	1,363,945	1,377,643
<b>Total Joint costs</b>	<b>\$ 4,871,233</b>	<b>\$ 4,920,153</b>

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### 12. Operating Leases

Rental expense for Foundation office space was \$2,215,475 and \$2,453,892 for the years ended December 31, 2021 and 2020, respectively. Lease agreements having an original term of more than one year expire on various dates through 2026.

Total future minimum lease payments were as follows at December 31, 2021:

<i>Years ending December 31,</i>		<b>Amount</b>
2022	\$	1,562,136
2023		1,028,119
2024		1,012,723
2025		951,447
2026		839,599
Thereafter		755,952
<b>Total Future minimum lease payments</b>	<b>\$</b>	<b>6,149,976</b>

### 13. Employee Benefit Plans

#### *Employee Contribution Plans*

*Defined Contribution Plans* - The Foundation sponsors various defined contribution retirement plans (the “defined contribution plans”) covering substantially all of the employees of the Foundation. Participants may contribute a percentage of their compensation on a pretax basis. The Foundation matches a portion of the participants’ compensation. Vesting policies are based on the specific defined contribution plan operated either at the National Office or the chartered entity. Total contributions to the defined contribution plans for the years ended December 31, 2021 and 2020 were \$669,271 and \$921,463, respectively.

*Deferred Compensation Plan* - The Foundation 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 Foundation makes non- elective contributions to the plan. At the discretion of the Foundation, participants are allowed to allocate plan contributions and designate beneficiaries. The Foundation’s contributions totaled approximately \$19,500 and \$41,646 for the year ended December 31, 2021 and 2020, respectively. All assets under the plan remain part of the Foundation’s general assets and are subject to the claims of its creditors. All rights to amounts held under the plan are owned by the Foundation. Therefore, the Foundation reports the assets and related liabilities of the plan within investments and accrued expenses and liabilities, respectively, in its statements of financial position. At December 31, 2021 and 2020, the assets and liabilities each totaled \$325,400 and \$361,621, respectively.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### *Defined Benefit Plans*

The Foundation has various defined benefit pension plans (the "Plan") covering certain employees. Benefits are based on years of service and compensation. Contributions are determined in accordance with each Plan's provisions. As of December 31, 2021 and 2020, the Foundation has recorded an accrued net pension liability of \$145,009 and \$906,456, respectively, in relation to the Plan. Due to their relative size in relation to the financial statements of the Foundation, additional disclosures are not included.

### **14. Commitments and Contingencies**

The Foundation has commitments for research awards and grants for future years. The terms of research awards and grants are from one to five years. At December 31, 2021, these commitments were as follows:

<i>Years ending December 31,</i>		<b>Amount</b>
2022	\$	<b>10,173,370</b>
2023		<b>1,937,767</b>
2024		<b>1,163,053</b>
Thereafter		<b>1,275,968</b>
<b>Total Commitments</b>	<b>\$</b>	<b>14,550,158</b>

The Foundation is involved in litigation arising from the normal course of business. Although the ultimate outcome of such matters cannot be predicted with certainty, management believes that the current expected outcome of any such matter will not have a material adverse effect on the Foundation's financial condition as of December 31, 2021.

### **15. Line of Credit**

In May 2020, the Foundation secured a revolving line of credit of \$14,000,000 to assist with working capital needs. The line is collateralized by the Foundation's operating investments account. Interest payments are due monthly, calculated at the London Inter-Bank Offered Rate plus 1.3 percentage points on the outstanding balance. There were no borrowings against the line during 2021 or 2020 and no outstanding balance at December 31, 2021 or 2020. The line of credit expires on December 31, 2022.

# Arthritis Foundation, Inc.

## Notes to Financial Statements

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### 16. Coronavirus Outbreak and CARES Act

The coronavirus pandemic (“COVID-19”) has impacted the Foundation’s operations since the global pandemic was declared in March 2020. In response, the Foundation took counter measures to respond to the needs of its mission. A minimal number of special events were hosted live, and others were held virtually. The Foundation is still evaluating when it will fully return to hosting live events. The Foundation also implemented a virtual work environment, with the exception of some select personnel, and implemented cost saving strategies and other measures to reduce operating expenses and preserve capital. Due to the uncertainty of the continued spread of the virus and economic outlook, there may be continued short-term and long-term implications for operations of the Foundation.

Conditional promises to give are not recognized in the Statements of Activities until the conditions are substantially met. During the year ended December 31, 2020, the Foundation received a \$5,315,400 loan (the “2020 Loan”) from the Small Business Administration (“SBA”) Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The 2020 Loan was recognized as government grant income during fiscal year 2020 since the conditions were substantially met as of December 31, 2020. In addition, subsequent to December 31, 2020 the 2020 Loan was forgiven in full by the SBA. Additional reviews and/or audits by the SBA of the application and supporting documentation may occur for a period of up to six years following initial approval of forgiveness by the SBA.

The Foundation applied for, and received, a second conditional grant under the SBA Paycheck Protection Program in March 2021 in the amount of \$2,000,000 (the “2021 Loan”). The 2021 Loan is unsecured and guaranteed by the SBA and is included as debt on the statement of financial position. The Foundation applied for forgiveness by the SBA but as of the date of these financial statements, forgiveness is pending a quality control process requiring additional levels of review by the SBA. If the Foundation’s requested forgiveness is not approved, the proceeds will be repayable in sixty monthly principal and interest payments beginning one month following the SBA’s communication of its forgiveness determination. Interest accrues at 1% per annum.

### 17. Subsequent Events

The Foundation has evaluated events subsequent to December 31, 2021 and through September 16, 2022, the date on which the financial statements were available for issuance. No material matters requiring disclosure were identified. The Foundation continues to actively monitor the impact of the COVID-19 outbreak on its financial condition, liquidity, operations, industry and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Foundation is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition or liquidity for fiscal year 2022 or beyond.