

Arthritis Foundation, Inc.
Tennessee Chapter

Financial Statements as of and for the
Year Ended December 31, 2007

Summarized Financial Information as of and for the
Year Ended December 31, 2006

and

Independent Certified Public Accountant Report

Metcalf Davis

Certified Public Accountants

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Certified Public Accountants

Report of Independent Certified Public Accountants

Board of Directors
Arthritis Foundation, Inc.
Tennessee Chapter

We have audited the accompanying statement of financial position of the **Arthritis Foundation, Inc. Tennessee Chapter** (the "Chapter") (a nonprofit organization) as of December 31, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Chapter's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Chapter's 2006 financial statements and, in our report dated May 11, 2007, we expressed an unqualified opinion on those financial statements.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Chapter's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Arthritis Foundation, Inc. Tennessee Chapter** as of December 31, 2007, 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.

Metcalf Davis

Atlanta, Georgia
May 15, 2008

ARTHRITIS FOUNDATION, INC.

TENNESSEE CHAPTER

Statement of Activities

Year Ended December 31, 2007 with Summarized Financial Information for the Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2007	2006
<u>Revenues, Gains and Public Support</u>					
Personal major gifts	\$ -	\$ -	\$ -	\$ -	10,000
Personal annual gifts	84,977	78,622	-	163,599	195,988
Commerce and industry	480,718	7,000	-	487,718	425,566
Foundations	180,696	5,853	-	186,549	66,870
Memorials	6,702	-	-	6,702	9,366
Clubs and organizations	285	-	-	285	400
Other gifts	5	-	-	5	260
Direct mail	695	-	-	695	30
Membership/direct response mktg	271,896	-	-	271,896	251,874
Donated Vehicles	1,643	-	-	1,643	2,021
Total contributions	1,027,617	91,475	-	1,119,092	962,375
Special events - gross income	745,016	-	-	745,016	712,275
Less direct donor benefit costs	(152,043)	-	-	(152,043)	(133,567)
Bequests/planned giving	186,397	50,000	-	236,397	169,254
Total direct public support	1,806,987	141,475	-	1,948,462	1,710,337
Federated campaigns	21,130	-	-	21,130	21,610
United Way	84,053	-	-	84,053	81,668
Total indirect public support	105,183	-	-	105,183	103,278
Contributed goods and services	5,970	-	-	5,970	225
Total public support	1,918,140	141,475	-	2,059,615	1,813,840
Government grants	65,444	-	-	65,444	65,300
Investment and royalty income	18,402	-	-	18,402	11,595
Unrealized gains (losses) on investments	(3,315)	-	-	(3,315)	10,452
Realized gains (losses) on investments	1,923	-	-	1,923	1,043
Sales and service fees	11,281	-	-	11,281	14,652
Miscellaneous	275	-	-	275	2,072
Total other revenue	94,010	-	-	94,010	105,114
Net assets released from restrictions	64,507	(64,507)	-	-	-
Total revenues, gains and public support	2,076,657	76,968	-	2,153,625	1,918,954
<u>Expenses</u>					
Research	309,516	-	-	309,516	301,045
Public health education	477,319	-	-	477,319	486,122
Professional education & training	299,185	-	-	299,185	269,914
Patient & community services	340,377	-	-	340,377	374,054
Fundraising	262,047	-	-	262,047	200,003
Management & general	164,841	-	-	164,841	144,762
Total expenses	1,853,285	-	-	1,853,285	1,775,900
Change in Net assets	223,372	76,968	-	300,340	143,054
Net assets, beginning of year	427,297	301,042	-	728,339	585,285
Net assets, end of year	\$ 650,669	\$ 378,010	\$ -	\$ 1,028,679	\$ 728,339

ARTHURITIS FOUNDATION, INC.
TENNESSEE CHAPTER
Statement of Functional Expenses
Year Ended December 31, 2007 with Summarized Financial Information for the Year Ended December 31, 2008

	Research	PROGRAM SERVICES				SUPPORTING SERVICES			Totals	
		Public Health Education	Professional Education & Training	Patient & Community Services	Total Program Services	Fund Raising	Management & General	Total Supporting Services	2007	2008
Expenses										
Salaries	\$ 33,972	\$ 160,927	\$ 160,861	\$ 154,797	\$ 510,557	\$ 92,657	\$ 48,839	\$ 141,496	\$ 652,053	\$ 669,714
Payroll taxes	2,900	13,735	13,730	13,212	43,577	7,908	4,188	12,076	55,653	57,392
Employee benefits	2,646	12,536	12,531	12,058	39,771	7,218	3,804	11,022	50,783	52,541
Technology fees	3,282	15,596	15,580	15,002	48,480	8,980	4,733	13,713	63,193	58,214
Data processing and accounting services	686	3,246	3,247	3,125	10,306	1,870	986	2,856	13,162	13,750
Professional fees and contract services	952	4,508	4,506	4,337	14,303	2,586	1,368	3,954	18,287	20,042
Professional services- contributed	-	-	-	-	-	3,750	-	3,750	3,750	225
Supplies	854	4,045	4,043	3,891	12,833	2,329	1,228	3,557	16,380	26,940
Supplies and materials-contributed	-	-	-	-	-	2,220	-	2,220	2,220	-
Printing, publications, and artwork	1,231	5,832	5,830	5,610	18,503	3,358	1,770	5,128	23,631	14,038
Materials expenses (including purchases from net)	394	8,362	1,867	1,867	12,510	3,743	587	4,310	16,820	12,833
Membership/direct response marketing	-	48,437	-	-	48,437	26,620	-	26,620	76,057	70,408
Arthritis Today cost recovery	-	33,672	-	-	33,672	-	-	-	33,672	38,909
Postage, shipping, and delivery	920	4,359	4,357	4,193	13,829	2,547	1,323	3,870	17,689	16,705
Telephone	947	4,485	4,483	4,314	14,229	2,582	1,361	3,943	18,172	16,705
Occupancy	3,829	18,138	18,131	17,448	57,547	10,444	5,505	15,949	73,406	71,283
Taxes and licenses	40	180	180	183	603	110	58	168	771	439
Insurance	601	3,132	3,130	3,012	9,895	1,803	850	2,753	12,688	12,314
Staff travel	2,232	10,574	10,568	10,171	33,548	6,088	3,209	9,297	42,843	48,257
Volunteer travel	107	508	508	489	1,612	293	154	447	2,059	5,156
Meeting and conferences	1,641	7,773	7,770	7,477	24,661	4,475	2,359	6,834	31,495	30,118
Equipment lease and maintenance	463	2,182	2,182	2,109	6,996	4,475	665	1,927	8,083	11,305
Membership dues and subscriptions	154	730	730	703	2,317	421	222	643	2,960	4,704
Specific assistance to individuals	-	-	-	-	7,754	-	-	-	7,754	5,277
Advertising	70	331	331	319	1,051	191	100	291	1,342	386
Miscellaneous	2,727	12,916	12,911	12,424	40,978	7,436	3,919	11,355	52,333	45,281
Depreciation and amortization	132	626	626	603	1,987	361	180	541	2,538	2,728
Total operating expenses	60,650	377,853	288,133	285,118	1,011,954	201,262	87,478	288,740	1,300,684	1,296,910
Share expense	248,686	89,466	11,052	55,259	414,443	60,785	77,363	138,148	552,581	478,990
Total expenses	\$ 309,516	\$ 477,319	\$ 299,185	\$ 340,377	\$ 1,426,397	\$ 262,047	\$ 184,841	\$ 426,888	\$ 1,853,265	\$ 1,775,900

ARTHRITIS FOUNDATION, INC.

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Statement of Cash Flows

Year Ended December 31, 2007 with Summarized Financial Information for the Year Ended December 31, 2006

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 300,340	\$ 143,054
Adjustments to reconcile change in net assets to		
net cash provided by (used in) operating activities:		
Depreciation and amortization	2,538	2,728
Donated investments	(126,912)	-
Net realized and unrealized (gains) losses on investments	1,392	(11,495)
Changes in asset and liabilities:		
(Increase) decrease in due from national office	(70,274)	5,854
(Increase) decrease in accounts and notes receivable	69,940	(90,740)
(Increase) decrease in contributions receivable	(21,239)	(161,884)
(Increase) decrease in prepaid expenses and other assets	(93)	(3,852)
Increase (decrease) in accounts payable	(1,603)	5,746
Increase (decrease) in due to national office	10,015	81,875
Increase (decrease) in accrued expenses and other liabilities	7,582	1,404
Net cash provided by (used in) operating activities	<u>171,686</u>	<u>(27,310)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	220,089	54,921
Net cash provided by (used in) investing activities	<u>220,089</u>	<u>54,921</u>
Net increase (decrease) in cash and cash equivalents	<u>391,775</u>	<u>27,611</u>
Cash and cash equivalents at beginning of year	<u>305,385</u>	<u>277,774</u>
Cash and cash equivalents at end of year	<u>\$ 697,160</u>	<u>\$ 305,385</u>

The accompanying notes are an integral part of these statements.

ARTHRITIS FOUNDATION, INC.

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Notes To Financial Statements

as of and for the Year Ended December 31, 2007 with comparative amounts for 2006

1 DESCRIPTION OF ORGANIZATION

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

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 Arthritis Foundation, Inc. Tennessee Chapter have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

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

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

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

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

Income Taxes - The Chapter is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code (the "Code") as a charitable organization whereby only unrelated business income, as defined by Section 512 (a) (1) of the code, is subject to federal income tax. The Chapter currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded.

Cash and Cash Equivalents - Cash accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2007 the Chapter's uninsured cash balance was \$504,396. The Chapter has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents are highly liquid investments with an original maturity of three months or less at the date of purchase.

ARTHRITIS FOUNDATION, INC.

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Notes To Financial Statements

as of and for the Year Ended December 31, 2007 with comparative amounts for 2006

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. The cost assigned to investments received by gift is the fair value at the date the gift is received. The net realized and unrealized gains (losses) on investments are reflected in the statement of activities.

Accounts Receivable - Accounts receivable consist of exchange transactions primarily related to government grants and sales and service fees and are stated at unpaid balances, less an allowance for doubtful accounts when deemed necessary.

Allowance for Doubtful Accounts - Allowance for doubtful accounts on outstanding accounts receivable balances is recorded when deemed necessary. Prior to 2007 the Chapter included the unamortized discount and the allowance for doubtful accounts in one amount.

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 recorded as expense as incurred; significant renewals and betterments are capitalized. The chapter's policy is to capitalize property and equipment acquisitions in excess of \$1,000.

Contributed Goods and Services - Contributed goods and services are reflected as both contribution revenue and expenses if they meet the criteria defined in Statement of Financial Accounting Standards No. 116 "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 set up and printing.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Chapter, but do not meet the criteria for recognition as contributed services. This includes advertising and auction items.

Contributions - Contributions, including unconditional promises to give, are recorded at the date of pledge. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable in amount.

Awards and Grants - Awards and grants are recorded as expense in the year for which the grants are designated. The terms of research awards and grants are from one to three years with continuation of grants subject to certain performance requirements.

Functional Allocation - The cost of providing the Chapter's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications - Certain reclassifications have been made to the 2006 balances to conform with the 2007 presentation.

Use of Estimates - Management of the Chapter 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 accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). Actual results could differ from these estimates.

ARTHRITIS FOUNDATION, INC.

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Notes To Financial Statements

as of and for the Year Ended December 31, 2007 with comparative amounts for 2006

Comparative 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 generally accepted accounting principles. Accordingly, such financial information should be read in conjunction with the Chapter's financial statements for the year ended December 31, 2006 from which the summarized financial information was derived.

3 RELATED PARTY TRANSACTIONS

The Chapter is required to share 27%, 35% or 45% of unrestricted public support and bequests (less certain allowances) to the Arthritis Foundation, Inc., National Office (the "National Office"). For the years ended December 31, 2007 and 2006 share expense was \$552,591 and \$478,990 respectively. The Chapter is also allocated a portion of certain contributions received by the National Office which for the years ended December 31, 2007 and 2006 was \$350,293 and \$332,063 respectively. The Chapter reimburses the National Office for a portion of costs associated with *Arthritis Today*, the organization's magazine, it's direct mail program, computer system support, financial services and educational and promotional materials which totaled approximately \$219,379 and \$221,050 in 2007 and 2006 respectively.

4 INVESTMENTS

Investments at December 31, 2007 and 2006 were as follows:

	2007	2006
Certificates of deposit	\$ 58,251	\$ 88,309
Common stocks	1,250	64,439
Other - principally money market and other mutual funds	-	1,322
TOTAL	\$ 59,501	\$ 154,070

5 CONTRIBUTIONS RECEIVABLE

The chapter had the following contributions receivable at December 31, 2007 and 2006:

	2007	2006
In less than one year	\$ 397,798	\$ 242,809
In one to five years	108,065	226,176
Gross contributions receivable	505,863	468,985
Less allowance for doubtful accounts	(50,006)	(42,655)
Unamortized present value discount	(8,288)	-
Net contributions receivable	\$ 447,569	\$ 426,330

Contributions receivable are net of unamortized present value discount calculated using a risk free interest rate of 4.5% which approximates the 30 year daily U.S. Treasury yield curve rate at December 31, 2007.

6 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2007 and 2006 consist of the following:

	estimated useful life	2007	2006
Leasehold improvements	(3-10 years)	\$ 7,767	\$ 7,767
Furniture and other equipment	(3-5 years)	76,494	76,494
		84,261	84,261
Less accumulated depreciation		(82,647)	(80,109)
		\$ 1,614	\$ 4,152

**ARTHRITIS FOUNDATION, INC.
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Notes To Financial Statements

as of and for the Year Ended December 31, 2007 with comparative amounts for 2006

7 ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at December 31, 2007 and 2006.

	December 31,	
	2007	2006
Wages	\$ 3,221	\$ -
Payrol taxes and other related liabilities	2,099	1,666
Other	3,928	-
	<u>\$ 9,248</u>	<u>\$ 1,666</u>

8 JOINT COSTS

In 2007 and 2006 the chapter incurred joint costs of \$76,057 and \$70,406 for informational materials and activities that included fund-raising appeals, such as the Chapter's direct mail.

Joint costs for the years ended December 31, 2007 and 2006 were allocated as follows:

	2007	2006
Fundraising	\$ 26,620	\$ 25,346
Public health education	49,437	45,060
	<u>\$ 76,057</u>	<u>\$ 70,406</u>

9 NET ASSETS

Temporarily restricted net assets at December 31, 2007 and 2006 are available for the following purposes:

	2007	2006
Specific programs conducted by the Chapter	\$ 48,354	\$ 32,500
Research	53,100	3,100
Scholarships, training and projects	1,474	10,000
Use in future periods	275,082	255,442
	<u>\$ 378,010</u>	<u>\$ 301,042</u>

Temporarily restricted net assets released from restrictions consist of the following in the years ended December 31, 2007 and 2006:

	2007	2006
Programs	\$ 5,526	\$ 110,500
Time releases	58,981	84,833
	<u>\$ 64,507</u>	<u>\$ 195,333</u>

10 OPERATING LEASES

Rental expense for Chapter office space was \$68,402 and \$69,022 for the years ended December 31, 2007 and 2006 respectively. Lease agreements having an original term of more than one year expire on various dates through 2011.

Future minimum annual lease payments as of December 31, 2007 are as follows:

2008	\$ 52,126
2009	46,089
2010	48,677
2011	4,074
	<u>\$ 150,966</u>

ARTHRITIS FOUNDATION, INC.

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as of and for the Year Ended December 31, 2007 with comparative amounts for 2006

11 EMPLOYEE BENEFIT PLAN

Defined Contribution Plan

The chapter sponsors a defined contribution retirement plan ("the Plan") covering substantially all employees of the Chapter. The Chapter contributes 6% of each eligible employee's compensation as specified in the Plan agreement. Total contributions to the Plan for the year ended December 31, 2007 and 2006 respectively were \$10,241 and \$15,706.