

March 10, 2007

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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, 2006, 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 2005 financial statements and, in our report dated March 24, 2006, 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, 2006, 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.

*BKR Metcalf Davis*

Atlanta, Georgia  
May 11, 2007

ARTHRITIS FOUNDATION, INC.  
 TENNESSEE CHAPTER  
 Statement of Financial Position  
 December 31, 2006 with Summarized Financial Information for December 31, 2005

<u>Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 260,025	\$ 45,360	\$ -	\$ 305,385	\$ 277,774
Investments	154,070	-	-	154,070	197,496
Due from national office	19,594	-	-	19,594	25,448
Accounts receivable	110,750	-	-	110,750	20,010
Contributions receivable (net of allowance for doubtful accounts and net present value of \$42,655 and \$31,850)	170,648	255,682	-	426,330	264,446
Prepaid expenses and other assets	13,178	-	-	13,178	9,326
Property and equipment, net	4,152	-	-	4,152	6,880
Total assets	<u>\$ 732,417</u>	<u>\$301,042</u>	<u>\$ -</u>	<u>\$ 1,033,459</u>	<u>\$ 801,380</u>
 <u>Liabilities and Net Assets</u>					
Accounts payable	\$ 8,270	\$ -	\$ -	\$ 8,270	\$ 2,524
Due to national office	295,184	-	-	295,184	213,309
Accrued expenses and other liabilities	1,666	-	-	1,666	262
Total liabilities	305,120	-	-	305,120	216,095
Net assets	427,297	301,042	-	728,339	585,285
Total liabilities and net assets	<u>\$ 732,417</u>	<u>\$301,042</u>	<u>\$ -</u>	<u>\$ 1,033,459</u>	<u>\$ 801,380</u>

ARTHRITIS FOUNDATION, INC.  
TENNESSEE CHAPTER  
Statement of Activities

Year Ended December 31, 2006 with Summarized Financial Information for the Year Ended December 31, 2005

	Unrestricted	Temporarily restricted	Permanently restricted	Totals	
				2006	2005
<u>Revenues, Gains and Public Support</u>					
Personal major gifts	\$ 10,000	\$ -	\$ -	\$ 10,000	\$ 80,000
Personal annual gifts	96,879	99,109	-	195,988	160,731
Commerce and industry	383,316	42,250	-	425,566	127,026
Foundations	18,120	48,750	-	66,870	50,400
Memorials	9,366	-	-	9,366	13,779
Clubs and organizations	400	-	-	400	6,043
Other gifts	260	-	-	260	-
Direct mail	30	-	-	30	850
Membership/direct response mktg	251,874	-	-	251,874	238,855
Donated Vehicles	2,021	-	-	2,021	397
Total contributions	772,266	190,109	-	962,375	678,081
Special events - gross income	712,275	-	-	712,275	1,019,584
Less direct donor benefit costs	(133,567)	-	-	(133,567)	(116,849)
Bequests/planned giving	169,254	-	-	169,254	60,394
Total direct public support	1,520,228	190,109	-	1,710,337	1,641,210
Federated campaigns	21,610	-	-	21,610	19,218
United Way	81,668	-	-	81,668	95,988
Total indirect public support	103,278	-	-	103,278	115,206
Contributed goods and services	44,777	-	-	44,777	96,687
Total public support	1,668,283	190,109	-	1,858,392	1,853,103
Government grants	65,300	-	-	65,300	45,000
Investment and royalty income	11,595	-	-	11,595	11,102
Unrealized gains (losses) on investments	10,452	-	-	10,452	1,963
Realized gains (losses) on investments	1,043	-	-	1,043	-
Sales and service fees	14,652	-	-	14,652	20,466
Miscellaneous	2,072	-	-	2,072	17,055
Total other revenue	105,114	-	-	105,114	95,586
Net assets released from restrictions	195,333	(195,333)	-	-	-
Total revenues, gains and public support	1,968,730	(5,224)	-	1,963,506	1,948,689
<u>Expenses</u>					
Research	303,409	-	-	303,409	281,704
Public health education	497,930	-	-	497,930	561,119
Professional education & training	279,546	-	-	279,546	294,214
Patient & community services	386,511	-	-	386,511	430,407
Fundraising	204,390	-	-	204,390	182,506
Management & general	148,666	-	-	148,666	124,698
Total expenses	1,820,452	-	-	1,820,452	1,874,648
Change in net assets	148,278	(5,224)	-	143,054	74,041
Net assets, beginning of year	279,019	306,266	-	585,285	511,244
Net assets, end of year	\$ 427,297	\$ 301,042	\$ -	\$ 728,339	\$ 585,285

The accompanying notes are an integral part of these statements.

ARTHRITIS FOUNDATION, INC.  
TENNESSEE CHAPTER  
Statement of Functional Expenses  
Year Ended December 31, 2006 with Summarized Financial Information for the Year Ended December 31, 2005

	PROGRAM SERVICES					SUPPORTING SERVICES			Totals	
	Research	Public Health Education	Professional Education & Training	Patient & Community Services	Total Program Services	Fund Raising	Management & General	Total Supporting Services	2006	2005
<b>Expenses</b>										
Salaries	\$ 35,361	\$ 176,604	\$ 144,056	\$ 186,314	\$ 542,334	\$ 68,981	\$ 58,399	\$ 127,380	\$ 669,714	\$ 641,640
Payroll taxes	3,030	15,134	12,345	15,967	46,476	5,911	5,005	10,916	57,392	55,393
Employee benefits	2,405	12,009	9,796	12,669	36,879	4,691	3,971	8,662	45,541	55,533
Technology fees	3,074	15,351	12,522	16,185	47,142	5,996	5,076	11,072	58,214	57,525
Data processing and accounting services	726	3,626	2,958	3,825	11,135	1,416	1,199	2,615	13,750	14,151
Professional fees and contract services	1,058	5,285	4,311	5,576	16,230	2,064	1,748	3,812	20,042	28,366
Professional services- contributed	1,293	6,457	5,267	6,812	19,829	2,522	2,135	4,657	24,486	38,932
Supplies	1,207	6,174	4,917	6,360	18,658	6,289	1,993	8,282	26,940	23,589
Supplies and materials-contributed	1,071	5,351	4,365	5,645	16,432	2,090	1,769	3,859	20,291	57,755
Printing, publications, and artwork	741	3,702	3,020	3,905	11,368	1,446	1,224	2,670	14,038	17,719
Materials expenses (including purchases from nat)	270	4,943	1,101	3,018	9,332	3,055	446	3,501	12,833	16,276
Membership/direct response marketing	-	45,060	-	-	45,060	25,346	-	25,346	70,406	66,808
Arthritis Today cost recovery	-	38,000	-	-	38,909	-	-	-	38,909	38,134
Postage, shipping, and delivery	738	3,688	3,008	3,890	11,324	1,440	1,219	2,659	13,983	18,226
Telephone	882	4,405	3,503	4,647	13,527	1,721	1,457	3,178	16,705	19,909
Occupancy	3,764	18,707	15,333	19,831	57,725	7,342	6,216	13,558	71,283	104,624
Taxes and licenses	23	116	95	122	356	45	38	83	439	619
Insurance	650	3,247	2,649	3,426	9,972	1,268	1,074	2,342	12,314	11,651
Staff travel	2,512	12,543	10,232	14,923	40,210	4,899	4,148	9,047	49,257	38,009
Volunteer travel	121	604	493	3,502	4,720	236	200	436	5,156	3,090
Meeting and conferences	1,590	7,942	6,479	8,379	24,390	3,102	2,626	5,728	30,118	42,263
Equipment lease and maintenance	597	2,981	2,432	3,145	9,155	1,164	986	2,150	11,305	13,154
Membership dues and subscriptions	248	1,240	1,012	1,309	3,809	485	410	895	4,704	3,718
Specific assistance to individuals	-	-	-	5,277	5,277	-	-	-	5,277	18,477
Advertising	20	102	83	107	312	40	34	74	386	1,825
Miscellaneous	822	4,107	3,350	4,333	12,612	1,604	1,359	2,962	15,574	15,034
Depreciation and amortization	144	719	687	759	2,209	281	238	519	2,728	6,045
Uncollectible pledges	1,567	7,826	6,383	8,256	24,032	3,057	2,588	5,645	29,677	22,715
Total operating expenses	63,914	406,922	260,386	348,192	1,079,414	156,491	105,557	262,048	1,341,462	1,431,180
Share expense	230,495	91,008	19,160	38,319	387,982	47,890	43,109	91,000	478,990	443,468
Total expenses	\$ 303,409	\$ 497,930	\$ 279,546	\$ 386,511	\$ 1,467,396	\$ 204,380	\$ 148,666	\$ 353,056	\$ 1,820,452	\$ 1,874,648

ARTHRITIS FOUNDATION, INC.  
 TENNESSEE CHAPTER  
 Statement of Cash Flows  
 Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:	\$ 143,054	\$ 74,041
Change in net assets		
Adjustments to reconcile change in net assets to		
net cash provided by (used in) operating activities:		
Depreciation and amortization	2,728	6,045
Net realized and unrealized (gains) losses on investments	(11,495)	(1,963)
Changes in asset and liabilities:		
(Increase) decrease in due from national office	5,854	(6,116)
(Increase) decrease in accounts and notes receivable	(90,740)	5,435
(Increase) decrease in contributions receivable	(161,884)	(34,606)
(Increase) decrease in prepaid expenses and other assets	(3,852)	4,583
Increase (decrease) in accounts payable	5,746	(195)
Increase (decrease) in due to national office	81,875	(12,694)
Increase (decrease) in accrued expenses and other liabilities	1,404	-
Net cash provided by (used in) operating activities	<u>(27,310)</u>	<u>34,530</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(5,725)
Proceeds from sale of investments	54,921	40
Net cash provided by (used in) investing activities	<u>54,921</u>	<u>(5,685)</u>
Net increase (decrease) in cash and cash equivalents	<u>27,611</u>	<u>28,845</u>
Cash and cash equivalents at beginning of year	<u>277,774</u>	<u>248,929</u>
Cash and cash equivalents at end of year	<u>\$ 305,385</u>	<u>\$ 277,774</u>

The accompanying notes are an integral part of these statements.

ARTHRITIS FOUNDATION, INC.  
TENNESSEE CHAPTER  
Notes To Financial Statements  
as of and for the Year Ended December 31, 2006 with comparative amounts for 2005

**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**

*Basis of Presentation* - The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Net assets, revenues, expenses, gains and losses are recorded 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 are maintained permanently by the Chapter. 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. 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.

*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.

ARTHRITIS FOUNDATION, INC.

TENNESSEE CHAPTER

Notes To Financial Statements

as of and for the Year Ended December 31, 2006 with comparative amounts for 2005

*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.

*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 and reserve for net present value on outstanding accounts and contributions receivable balances is recorded when deemed necessary.

*Contributed Goods and Services* - Contributed goods are reflected as contributions in the accompanying statement of activities at their estimated value at date of receipt.

Contributed services are reflected in the statement of activities at the fair value of the services received. 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 media time.

*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 2005 balances to conform with the 2006 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.

TENNESSEE CHAPTER

Notes To Financial Statements

as of and for the Year Ended December 31, 2006 with comparative amounts for 2005

*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, 2005 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, 2006 and 2005 shared expense was \$478,990 and \$443,468 respectively. The Chapter is also allocated a portion of certain contributions received by the National Office which for the years ended December 31, 2006 and 2005 was \$317,063 and \$327,377 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 \$135,645 and \$142,690 in 2006 and 2005 respectively.

4 INVESTMENTS

Investments at December 31, 2006 and 2005 were as follows:

	2006	2005
Certificates of deposit with maturities greater than three months	\$ 88,309	\$ 139,978
Common stocks	64,439	55,311
Other - principally money market and other mutual funds	1,322	2,207
<b>TOTAL</b>	<b>\$ 154,070</b>	<b>\$ 197,496</b>

5 CONTRIBUTIONS RECEIVABLE

Contributions receivable are reported in the statement of financial position net of an allowance for uncollectible amounts and net present value discount of the outstanding pledge. At December 31, 2006 and 2005, unconditional promises to give are expected to be received as follows:

	2006	2005
In less than one year	\$ 242,809	\$ 137,045
In one to five years	226,176	151,976
In more than five years	-	7,275
Gross contributions receivable	468,985	296,296
Less allowance for uncollectible amounts and net present value	42,655	31,850
<b>Net contributions receivable</b>	<b>\$ 426,330</b>	<b>\$ 264,446</b>

6 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2006 and 2005 consist of the following:

	estimated useful life	2006	2005
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		80,109	77,381
		<b>\$ 4,152</b>	<b>\$ 6,880</b>



ARTHRITIS FOUNDATION, INC.  
TENNESSEE CHAPTER  
Notes To Financial Statements  
as of and for the Year Ended December 31, 2006 with comparative amounts for 2005

**7 JOINT COSTS**

In 2006 and 2005 the chapter incurred joint costs of \$70,406 and \$66,808, respectively, 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, 2006 and 2005 were allocated as follows:

	2006	2005
Fundraising	\$ 25,346	\$ 24,051
Public health education	45,060	42,757
	<u>\$ 70,406</u>	<u>\$ 66,808</u>

**8 NET ASSETS**

Temporarily restricted net assets at December 31, 2006 and 2005 are available for the following purposes:

	2006	2005
Specific programs conducted by the Chapter	\$ -	\$ 15,000
Research	3,100	3,100
Scholarships, training and projects	42,500	34,000
Use in future periods	255,442	254,166
	<u>\$ 301,042</u>	<u>\$ 306,266</u>

Release from restrictions consist of the following in the years ended December 31, 2006 and 2005:

	2006	2005
Programs	\$ 110,500	\$ 103,048
Time releases	84,833	50,776
	<u>\$ 195,333</u>	<u>\$ 153,824</u>

**9 OPERATING LEASES**

Rental expense for Chapter office space was \$69,022 and \$83,633 for the years ended December 31, 2006 and 2005 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, 2006 are as follows:

2007	\$ 57,401
2008	52,126
2009	46,089
2010	48,677
2011	4,074
	<u>\$ 208,368</u>

**10 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, 2006 and 2005 respectively were \$15,706 and \$23,671.