Financial Statements and Independent Auditors' Report

Arthritis Foundation, Southeast Region, Inc.

Year Ended December 31, 2013
(With Summarized Financial Information for the
Year Ended December 31, 2012)

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# Independent Auditors' Report

Board of Directors
Arthritis Foundation, Southeast Region, Inc.

We have audited the accompanying financial statements of the Arthritis Foundation, Southeast Region, Inc., (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arthritis Foundation, Southeast Region, Inc., as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Arthritis Foundation, Southeast Region, Inc.'s 2012 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated May 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Metcalf Davis

Atlanta, Georgia
March 18, 2014

**ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.**

Statement of Financial Position

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

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals 2013 | Totals 2012 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and cash equivalents | $ - | $ 820,629 | $ - | $ 820,629 | $ 1,051,534 |
| Due (to) from other funds | (141,129) | 141,129 | - | - | - |
| Investments | - | 34,335 | - | 34,335 | 167,866 |
| Investments held by National Office | - | 78,120 | 111,097 | 189,217 | - |
| Contributions receivable, net | 1,714,761 | 709,887 | - | 2,424,648 | 2,593,655 |
| Prepaid expenses and other assets | 28,747 | - | - | 28,747 | 14,561 |
| Beneficial interests in perpetual trusts | - | - | 318,385 | 318,385 | 301,692 |
| Property and equipment, net | 90,448 | - | - | 90,448 | 88,534 |
| Total assets | $ 1,692,827 | $ 1,784,100 | $ 429,482 | $ 3,906,409 | $ 4,217,842 |
| Liabilities and Net Assets | | | | | |
| Accounts payable | $ 95,087 | $ - | $ - | $ 95,087 | $ 153,864 |
| Accrued expenses and other liabilities | 242,919 | - | - | 242,919 | 324,021 |
| Due to National Office | 1,411,956 | - | - | 1,411,956 | 894,870 |
| Debt obligations | 131,607 | - | - | 131,607 | 575,081 |
| Total liabilities | 1,881,569 | - | - | 1,881,569 | 1,947,836 |
| Net assets | (188,742) | 1,784,100 | 429,482 | 2,024,840 | 2,270,006 |
| Total liabilities and net assets | $ 1,692,827 | $ 1,784,100 | $ 429,482 | $ 3,906,409 | $ 4,217,842 |

The accompanying notes are an integral part of this statement.

**ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.**
Statement of Activities
Year Ended December 31, 2013 with Summarized Financial Information for the Year Ended December 31, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals 2013 | Totals 2012 |
|---|---|---|---|---|---|
| Operating Activities | | | | | |
| Personal major gifts | $ 50,000 | $ - | $ - | $ 50,000 | $ 50,000 |
| Personal annual gifts | 40,998 | 2,350 | - | 43,348 | 63,383 |
| Commerce and industry gifts | 234,257 | 20,300 | - | 254,557 | 217,872 |
| Contribution from National Office | - | - | - | - | - |
| Foundations | 35,486 | 230,184 | - | 265,670 | 334,100 |
| Memorials | 7,998 | 125 | - | 8,123 | 21,826 |
| Clubs and organizations | 12,246 | 5,500 | - | 17,746 | 76,652 |
| Direct mail | 1,233 | - | - | 1,233 | 1,169 |
| Membership/direct response marketing | 774,879 | - | - | 774,879 | 826,140 |
| Donated vehicles | 270 | - | - | 270 | 2,329 |
| Total contributions | 1,157,367 | 258,459 | - | 1,415,826 | 1,593,471 |
| Special events - gross income | 1,740,393 | - | - | 1,740,393 | 2,388,564 |
| Less direct donor benefit costs | (354,475) | - | - | (354,475) | (494,115) |
| Bequests/planned giving | 730,983 | 584,906 | - | 1,315,889 | 503,352 |
| Total direct public support | 3,274,268 | 843,365 | - | 4,117,633 | 3,991,272 |
| Federated campaigns | 36,581 | - | - | 36,581 | 43,749 |
| United Way | 9,403 | - | - | 9,403 | 28,032 |
| Total indirect public support | 45,984 | - | - | 45,984 | 71,781 |
| Total public support | 3,320,252 | 843,365 | - | 4,163,617 | 4,063,053 |
| Government grants | 4,894 | - | - | 4,894 | 99,194 |
| Sales and service fees | 38,754 | - | - | 38,754 | 32,876 |
| Investment return appropriated for operations | 5,637 | 6,105 | - | 11,742 | 10,058 |
| Miscellaneous income | 2,970 | - | - | 2,970 | 18,421 |
| Total other revenue | 52,255 | 6,105 | - | 58,360 | 160,549 |
| (Loss) recovery on uncollectible pledges | (30,100) | (12,667) | - | (42,767) | 93,370 |
| Net assets released from restrictions | 613,262 | (613,262) | - | - | - |
| Total revenues, gains and public support | 3,955,669 | 223,541 | - | 4,179,210 | 4,316,972 |
| Expenses | | | | | |
| Research | 455,812 | - | - | 455,812 | 196,786 |
| Public health education | 1,954,801 | - | - | 1,954,801 | 2,449,641 |
| Professional education and training | 12,661 | - | - | 12,661 | 10,918 |
| Patient and community services | 1,091,023 | - | - | 1,091,023 | 1,487,264 |
| Fundraising | 425,907 | - | - | 425,907 | 546,570 |
| Management and general | 458,743 | - | - | 458,743 | 498,459 |
| Total program and supporting services expenses | 4,398,947 | - | - | 4,398,947 | 5,189,638 |
| Change in net assets from operating activities | (443,278) | 223,541 | - | (219,737) | (872,666) |
| Non-operating Activities | | | | | |
| Net change in pension liability | 39,594 | - | - | 39,594 | (66,839) |
| Investment return over amounts appropriated for operations | - | 18,284 | - | 18,284 | 11,708 |
| Return of donor contribution | (11,670) | (88,330) | - | (100,000) | - |
| Unrealized gain on beneficial interest in perpetual trusts | - | - | 16,693 | 16,693 | 17,384 |
| Change in net assets from non-operating activities | 27,924 | (70,046) | 16,693 | (25,429) | (37,747) |
| Change in net assets | (415,354) | 153,495 | 16,693 | (245,166) | (910,413) |
| Net assets, beginning of year | 226,612 | 1,630,605 | 412,789 | 2,270,006 | 3,180,419 |
| Net assets, end of year | $ (188,742) | $ 1,784,100 | $ 429,482 | $ 2,024,840 | $ 2,270,006 |

The accompanying notes are an integral part of this statement.

**ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.**

Statement of Functional Expenses

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

| | PROGRAM SERVICES | | | | | SUPPORTING SERVICES | | | Totals | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Research | Public Health Education | Professional Education and Training | Patient and Community Services | Total Program Services | Fundraising | Management and General | Total Supporting Services | 2013 | 2012 |
| Expenses | | | | | | | | | | |
| Salaries | $ - | $ 546,990 | $ - | $ 384,905 | $ 931,895 | $ 103,452 | $ 160,926 | $ 264,378 | $ 1,196,273 | $ 1,819,779 |
| Payroll taxes | - | 46,767 | - | 29,851 | 76,618 | 8,955 | 13,931 | 22,886 | 99,504 | 139,102 |
| Employee benefits | - | 76,197 | - | 48,636 | 124,833 | 14,591 | 22,697 | 37,288 | 162,121 | 253,071 |
| Technology fees | - | 59,700 | - | 38,106 | 97,806 | 11,432 | 17,783 | 29,215 | 127,021 | 160,358 |
| Data processing and accounting services | - | 17,842 | - | 11,389 | 29,231 | 3,417 | 5,315 | 8,732 | 37,963 | 64,935 |
| Professional fees and contract services | - | 154,640 | - | 128,459 | 283,099 | 29,583 | 46,017 | 75,600 | 358,699 | 161,407 |
| Supplies | - | 8,548 | - | 15,286 | 23,834 | 1,637 | 2,546 | 4,183 | 28,017 | 58,841 |
| Printing, publications and artwork | - | 16,131 | - | 23,014 | 39,145 | 3,021 | 4,699 | 7,720 | 46,865 | 82,257 |
| Materials expenses | - | 7,550 | - | 9,010 | 16,560 | 850 | 1,322 | 2,172 | 18,732 | 35,674 |
| Membership/direct response marketing | - | 206,312 | - | - | 206,312 | 84,268 | - | 84,268 | 290,580 | 309,803 |
| Arthritis Today cost recovery | - | 94,832 | - | - | 94,832 | - | - | - | 94,832 | 99,344 |
| Postage, shipping and delivery | - | 10,193 | - | 7,822 | 18,015 | 1,340 | 2,085 | 3,425 | 21,440 | 32,279 |
| Telephone | - | 5,834 | - | 3,724 | 9,558 | 1,117 | 1,738 | 2,855 | 12,413 | 46,181 |
| Occupancy | - | 129,017 | - | 82,351 | 211,368 | 24,705 | 38,431 | 63,136 | 274,504 | 302,316 |
| Taxes and licenses | - | 492 | - | 314 | 806 | 94 | 146 | 240 | 1,046 | 1,152 |
| Insurance | - | 15,953 | - | 10,183 | 26,136 | 3,055 | 4,752 | 7,807 | 33,943 | 43,022 |
| Staff travel | - | 27,572 | - | 21,633 | 49,205 | 4,632 | 7,206 | 11,838 | 61,043 | 111,747 |
| Volunteer travel | - | 1,052 | - | 10,423 | 11,475 | 145 | 225 | 370 | 11,845 | 17,096 |
| Meetings and conferences | - | 17,199 | - | 50,451 | 67,650 | 2,836 | 4,412 | 7,248 | 74,898 | 116,634 |
| Equipment lease and maintenance | - | 11,916 | - | 7,606 | 19,522 | 2,282 | 5,651 | 7,933 | 27,455 | 45,282 |
| Membership dues and subscriptions | - | 3,163 | - | 2,019 | 5,182 | 606 | 942 | 1,548 | 6,730 | 5,959 |
| Specific assistance to individuals | - | - | - | 33,440 | 33,440 | - | - | - | 33,440 | 51,031 |
| Advertising | - | 5,778 | - | 3,136 | 8,914 | 941 | 1,463 | 2,404 | 11,318 | 36,831 |
| Interest | | 5,005 | | 3,195 | 8,200 | 958 | 1,491 | 2,449 | 10,649 | 5,998 |
| Miscellaneous | - | 31,730 | - | 19,621 | 51,351 | 5,885 | 10,326 | 16,211 | 67,562 | 74,879 |
| Depreciation | - | 11,238 | - | 7,173 | 18,411 | 2,152 | 3,347 | 5,499 | 23,910 | 22,834 |
| Total operating expenses | - | 1,511,651 | - | 951,747 | 2,463,398 | 311,954 | 357,451 | 669,405 | 3,132,803 | 4,097,812 |
| Share expense | 455,812 | 443,150 | 12,661 | 139,276 | 1,050,899 | 113,953 | 101,292 | 215,245 | 1,266,144 | 1,091,826 |
| Total expenses | $ 455,812 | $ 1,954,801 | $ 12,661 | $ 1,091,023 | $ 3,514,297 | $ 425,907 | $ 458,743 | $ 884,650 | $ 4,398,947 | $ 5,189,638 |

The accompanying notes are an integral part of this statement.

**ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.**

Statement of Cash Flows

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

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ (245,166) | $ (910,413) |
| Adjustments to reconcile change in net assets to net cash ( used in) operating activities: | | |
| Depreciation | 23,910 | 22,834 |
| Net unrealized gain on beneficial interest in perpetual trusts | (16,693) | (17,384) |
| Net realized and unrealized gains on investments | (18,284) | (11,708) |
| Change in asset and liabilities: | | |
| Contributions receivable | 169,006 | (75,726) |
| Prepaid expenses and other assets | (14,186) | 8,104 |
| Accounts payable | (58,778) | 68,018 |
| Due to National Office | 517,086 | 50,176 |
| Accrued expenses and other liabilities | (81,102) | 96,040 |
| Net cash provided by (used in) operating activities | 275,793 | (770,059) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | - | (3,278) |
| Funds held in trust by others - transfer | (174,859) | - |
| Purchase of investments | - | (54,236) |
| Proceeds from sale of investments | 185,458 | 454,470 |
| Net cash provided by investing activities | 10,599 | 396,956 |
| Cash flows from financing activities | | |
| Net proceeds from line of credit | - | 500,000 |
| Payments on line of credit | (500,000) | - |
| Payments on note payable | - | (45,000) |
| Payments on capital lease obligations | (17,297) | (14,565) |
| Net cash (used in) provided by financing activities | (517,297) | 440,435 |
| Net (decrease) increase in cash and cash equivalents | (230,905) | 67,332 |
| Cash and cash equivalents at beginning of year | 1,051,534 | 984,202 |
| Cash and cash equivalents at end of year | $ 820,629 | $ 1,051,534 |
| Noncash financing activities: | | |
| Purchase of furniture and fixtures under capital leases. | $ 25,823 | $ 79,682 |
| In 2013, the Region entered into a lease termination agreement. | 48,000 | |

The accompanying notes are an integral part of this statement.

## NOTE 1 – DESCRIPTION OF ORGANIZATION

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

On January 29, 2013, the Region relinquished its charter agreement with the Arthritis Foundation, Inc., National Office (the "National Office") and continued to operate as a division of the National Office. The National Office continued to operate the Region as a separately incorporated entity through 2013. Management expects the Region's assets and liabilities will be acquired by the National Office as of March 31, 2014.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

*Accrual Basis of Accounting* - The financial statements of the Region have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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

> *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.
>
> *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Region and/or the passage of time.
>
> *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that the Region maintains them permanently. Generally, the donors of these assets permit the Region to use all or part of the income earned on related investments for general or specific purposes.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

Operating results in the statement of activities reflect all transactions increasing and decreasing net assets except those that the Region defines as non-operating. Included in non-operating are endowment returns in excess of the spending policy, changes in pension liability of the defined benefit plan, unrealized gains and losses on a beneficial interests in perpetual trust, changes in valuation of split-interest agreements and return of donor contributions.

*Income Taxes* - The Region is a not-for-profit corporation and has been recognized as exempt from Federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code ("IRC"). If the Region engages in activities unrelated to its mission it may be responsible for payment of unrelated business income tax. Deferred tax assets and liabilities are measured based on enacted tax laws and rates expected to apply to taxable income in the year in which temporary differences are expected to be recorded or settled. Income taxes did not have a material impact on the financial position or change in net assets of the Region for the years ended December 30, 2013 and 2012.

The Region's policy is to record a liability for any tax position taken that is beneficial to the Region, including any interest and penalties, when it is more likely than not the position taken will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2013 and 2012 and, accordingly, no liability has been accrued.

Generally, the Internal Revenue Service ("IRS") may examine a tax return for three years from the date it is filed. At December 31, 2013, tax year ended December 31, 2012, 2011 and 2010 remained open for possible examination by the IRS.

*Cash and Cash Equivalents* - Cash accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 for interest bearing accounts and to an unlimited amount for certain non-interest bearing business accounts. At December 31, 2013, the Region's uninsured cash balance was $623,287. The Region has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents are highly liquid investments with an original maturity of three months or less at the date of purchase. Because of the short maturity of these financial instruments, the carrying value approximates the fair value.

*Investments* - Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. The cost assigned to investments received by gift is the fair value at the date the gift is received. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on cost (cost of securities if purchased or the fair market value at the date of gift if received by donation). Dividend and interest income is recorded on the accrual basis. In accordance with the policy of stating investments at fair value, the net change in unrealized appreciation or depreciation for the year is reflected in the statement of activities.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

*Allowance for Doubtful Accounts* - Allowance for doubtful accounts on outstanding accounts 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 after 30 days.

*Funds Held in Trust by Others* - The Region's endowment which is in the possession of the National Office has been commingled with funds from other Region's in order to efficiently manage a large number of donor or Foundation funds and to minimize risk while achieving acceptable investment returns. The Region has legally enforceable rights or claims to such assets including the right to income there from.

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

*Property and Equipment* - Property and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is expensed when incurred; significant renewals and betterments are capitalized. The Region capitalizes property and equipment acquisitions in excess of $5,000.

*Contributed Goods and Services* - Contributed goods and services are reflected as both contribution revenue and expenses if they meet the criteria defined in accordance with GAAP, "Accounting for Contributions", in the accompanying statement of activities at their estimated fair value at date of receipt. Contributions" of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided. Generally, such services include advertising.

In addition, the Region receives services from a large number of volunteers who give significant amounts of their time to the Region's programs, fundraising campaigns, and management. No amounts have been reflected for these types of donated services, as they do not meet the criteria for recognition.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

*Summarized Data* - The financial statements include certain prior year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such financial information should be read in conjunction with the Region's financial statements as of and for the year ended December 31, 2012 from which the summarized financial information was derived.

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

*Reclassifications* - Certain reclassifications have been made to the 2012 balances to conform to the 2013 presentation.

## NOTE 3 – RELATED PARTY TRANSACTIONS

The Region is required to share 27 percent, 35 percent or 45 percent of public support and bequests (less certain allowances), depending on the nature of the transaction, with the National Office. For the years ended December 31, 2013 and 2012, share expense was $1,266,144 and $1,091,826, respectively. The Region is also allocated a portion of certain contributions received by the National Office, which for the years ended December 31, 2013 and 2012 was $981,855 and $1,055,820, respectively. The Region reimburses the National Office for a portion of costs associated with *Arthritis Today*, the organization's magazine, its direct mail program, computer system support, financial services and educational and promotional materials which totaled $527,280 and $648,726 in 2013 and 2012, respectively.

Amounts due to and from the National Office at year end arise as a result of transactions occurring between the two entities. National Office has the ability to net amounts due to the Region with amounts due from the Region, therefore these amounts are combined and presented as either due to or from the National Office on the statement of financial position. At December 31, 2013, the amount due to the National Office was $1,411,956.

## NOTE 4 – INVESTMENTS

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

| | 2013 | 2012 |
|---|---|---|
| Marketable securities: | | |
| Domestic equity mutual funds | $ 34,355 | $ 44,428 |
| Fixed income mutual funds | - | 86,470 |
| International equity mutual funds | - | 12,181 |
| Total marketable securities | 34,355 | 143,079 |
| Money market fund | - | 24,787 |
| Total investments | $ 34,355 | $ 167,866 |

The following summarizes the Region's total investment return which includes amounts related to investments reported by the Region as well as amounts reported as investments held by the National Office.

| | December 31, 2013 | | |
|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total |
| Dividend and interest income | $ 5,637 | $ 6,105 | $ 11,742 |
| Net realized gains | - | 7,917 | 7,917 |
| Net unrealized gains | - | 10,367 | 10,367 |
| | 5,637 | 24,389 | 30,026 |
| Less investment return appropriated for operations | 5,637 | 6,105 | 11,742 |
| Investment return over amount designated for operations | $ - | $ 18,284 | $ 18,284 |

| | December 31, 2012 | | |
|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total |
| Dividend and interest income | $ 2,582 | $ 7,476 | $ 10,058 |
| Net realized (losses) gains | (623) | 828 | 205 |
| Net unrealized (losses) gains | (576) | 12,079 | 11,503 |
| | 1,383 | 20,383 | 21,766 |
| Less investment return appropriated for operations | 2,582 | 7,476 | 10,058 |
| Investment return (under) over amount designated for operations | $ (1,199) | $ 12,907 | $ 11,708 |

**NOTE 4 – INVESTMENTS** - Continued

Investment management fees totaled $2,010 and $2,546 for the years ending December 31, 2013 and 2012.

**NOTE 5 – FAIR VALUE MEASUREMENTS**

In accordance with GAAP, fair value measurement establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

This standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by GAAP. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date. The standard describes three levels of inputs that may be used to measure fair value:

**Level I** - Unadjusted quoted prices in active markets for identical assets. Level I assets include debt and equity securities that are traded in an active exchange market.

**Level II** - Inputs other than quoted prices included in Level I that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.), or inputs derived principally from or corroborated by observable market data by correlation or other means. Investments held by the National Office are classified in this category.

**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 Region's assumptions based on the best information available in the circumstances. This category includes the Region’s perpetual trust which is valued based on the market value of the underlying securities as provided by the trustee and funds held in trust by others.

Quantitative information related to valuation inputs for the Level III trusts is not available since the value of the trust that was provided by the trustees was used without adjustment. On an annual basis, Region management evaluates the return received from the trust against the value of its portion of the trust for reasonableness as compared with current market returns. The fair value of the funds held in trust is based on the Region’s portion of the common investment pool.

**NOTE 5 – FAIR VALUE MEASUREMENTS** - Continued

The following table summarizes the valuation of the Region's marketable securities, funds held in trust by others and interest in perpetual trust by the above hierarchy levels as of December 31, 2013 and 2012:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Domestic equity mutual funds | $ 34,335 | $ - | $ - | $ 34,335 |
| Total marketable securities | 34,335 | - | - | 34,335 |
| Investments held by the National Office | - | 189,217 | - | 189,217 |
| Beneficial interest in perpetual trusts | - | - | 318,385 | 318,385 |
| Total | $ 34,335 | $ 189,217 | $ 318,385 | $ 541,937 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| International equity mutual funds | $ 12,181 | $ - | $ - | $ 12,181 |
| Domestic equity mutual funds | 44,428 | - | - | 44,428 |
| Fixed income mutual funds | 86,470 | - | - | 86,470 |
| Total marketable securities | 143,079 | - | - | 143,079 |
| Beneficial interest in perpetual trusts | - | - | 301,692 | 301,692 |
| Total | $ 143,079 | $ - | $ 301,692 | $ 444,771 |

The following table is a reconciliation of the Region's Level III assets for the years ended December 31, 2013 and 2012.

| | 2013 | 2012 |
|---|---|---|
| Beginning balance | $ 301,692 | $ 284,308 |
| Net unrealized gain | 16,693 | 17,384 |
| Ending balance | $ 318,385 | $ 301,692 |

## NOTE 6 – ENDOWMENTS

The Region's endowment consists of one donor restricted endowment fund established in Georgia for the purpose of funding professional education programs.

Region management understands Georgia's adoption of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Region classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund in excess of the its original fair value that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Region considers the following factors in making a determination to appropriate or accumulated donor restricted endowment funds:

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

If the market value of any fund classified as permanently restricted at year-end is below the amount determined to be permanently restricted the deficit which cannot be funded from temporarily restricted unspent earnings of the fund are reported as a reduction in unrestricted net assets. There were no such deficiencies for the years ended December 31, 2013 and 2012.

Region policy requires that the endowment assets be governed by a spending policy that seeks to distribute a specific payout rate of the endowment base to support the Region'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). The distribution or payout rate is calculated at a specific percentage of the base as determined by the Board. 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 endowments. In addition, the policy minimizes the probability of invading the principal over the long-term.

**NOTE 6 – ENDOWMENTS -** Continued

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.

The endowment is divided into three broad asset classes: equity fund, fixed income fund and cash or near-cash fund. The purpose of dividing the endowment fund in this way is to ensure that the optimal long-term return is achieved given the Region's risk preference. The 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.

Endowment net asset composition by type of fund as of December 31, 2013 and 2012:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted | $ - | $ 52,353 | $ 111,097 | $ 163,450 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Board designated | $ 25,767 | $ - | $ - | $ 25,767 |
| Donor restricted | - | 32,682 | 111,097 | 143,779 |
| Total | $ 25,767 | $ 32,682 | $ 111,097 | $ 169,546 |

**NOTE 6 – ENDOWMENTS -** Continued

Change in endowment net assets:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of the year | $ 25,767 | $ 32,682 | $ 111,097 | $ 169,546 |
| Contributions | - | - | - | - |
| Investment return | | | | |
| Investment income | - | 972 | - | 972 |
| Net appreciation | - | 20,871 | - | 20,871 |
| Total investment return | - | 21,843 | - | 21,843 |
| Appropriation of endowment assets for expenditure | (25,767) | (2,172) | - | (27,939) |
| Endowment net assets, end of the year | $ - | $ 52,353 | $ 111,097 | $ 163,450 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of the year | $ 25,326 | $ 15,151 | $ 111,097 | $ 151,574 |
| Contributions | 441 | - | - | 441 |
| Investment return | | | | |
| Investment income | - | 7,357 | - | 7,357 |
| Net appreciation | - | 13,026 | - | 13,026 |
| Total investment return | - | 20,383 | - | 20,383 |
| Appropriation of endowment assets for expenditure | - | (2,852) | - | (2,852) |
| Endowment net assets, end of the year | $ 25,767 | $ 32,682 | $ 111,097 | $ 169,546 |

## NOTE 7 – CONTRIBUTIONS RECEIVABLE

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

| | 2013 | 2012 |
|---|---|---|
| Amount due in: | | |
| Less than one year | $ 2,207,818 | $ 2,166,418 |
| One to five years | 225,787 | 434,528 |
| Gross contributions receivable | 2,433,605 | 2,600,946 |
| Allowance for doubtful accounts | (608) | (3,320) |
| Unamortized present value discount | (8,349) | (3,971) |
| Net contributions receivable | $ 2,424,648 | $ 2,593,655 |

Discounts on contributions receivable were originally calculated at the date of donation using rates commensurate with the risks involved (the rate used was 3.7 percent).

## NOTE 8 – PROPERTY AND EQUIPMENT

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

| | 2013 | 2012 |
|---|---|---|
| Furniture and other equipment (useful life 3-5 years) | $ 185,178 | $ 230,551 |
| Less: accumulated depreciation | (94,730) | (142,017) |
| Property and equipment, net | $ 90,448 | $ 88,534 |

Depreciation expense was $23,910 and $22,834 for the years ended December 31, 2013 and 2012, respectively.

## NOTE 9 – ACCRUED EXPENSES AND OTHER LIABILITIES

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

| | 2013 | 2012 |
|---|---|---|
| Pension | $ 206,023 | $ 245,617 |
| Vacation | 13,891 | 36,746 |
| Other | 23,005 | 41,658 |
| Total accrued expenses and other liabilities | $ 242,919 | $ 324,021 |

## NOTE 10 - DEBT OBLIGATIONS

As a cost savings measure, in 2013, the Region relocated their offices to the building owned by the National Office and entered into a lease termination agreement with its previous landlord. The total obligation under the agreement is $48,000 which is included in debt obligations. The terms of the agreement require the Region to make 24 monthly payments of $2,000 beginning January 2014.

The Region has leased various assets, primarily office equipment, with lease terms approximating the useful lives of the assets. As a result, the present value of the remaining future minimum lease payments are recorded as capitalized lease assets and related notes payable. Assets under capital leases (net of accumulated depreciation) at December 31, 2013 and 2012 were $80,310 and $71,714, respectively, and are included in property and equipment on the statement of financial position.

The Region's debt obligations at December 31, 2013 are comprised of the following:

Future minimum lease payments under capital leases are as follows:

| For the years ending December 31, | |
|---|---|
| 2014 | $ 25,351 |
| 2015 | 25,351 |
| 2016 | 25,351 |
| 2017 | 18,520 |
| 2018 | 1,598 |
| Total future minimum lease payments | 96,171 |
| Less amounts representing interest | (12,564) |
| Present value of net minimum lease payments | 83,607 |
| Lease termination fee | 48,000 |
| Total debt obligations | $ 131,607 |

## NOTE 11 – JOINT COSTS

In 2013 and 2012, the Region incurred joint costs of $290,580 and $309,803 for informational materials and activities that included fundraising appeals, such as the Region's direct mail. Joint costs for the years ended December 31, 2013 and 2012 were allocated as follows:

| | 2013 | 2012 |
|---|---|---|
| Public health education | $ 206,312 | $ 229,254 |
| Fundraising | 84,268 | 80,549 |
| | $ 290,580 | $ 309,803 |

## NOTE 12 – NET ASSETS

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

| | 2013 | 2012 |
|---|---|---|
| Specific programs to be conducted by the Region | $ 744,754 | $ 904,679 |
| Scholarships, training and projects | 49,356 | 660,564 |
| Research | 986,788 | 39,445 |
| Use in future periods | 3,202 | 25,917 |
| | $ 1,784,100 | $ 1,630,605 |

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

| | 2013 | 2012 |
|---|---|---|
| Research and specific projects | $ 174,130 | $ 169,891 |
| Operations | 255,352 | 242,898 |
| | $ 429,482 | $ 412,789 |

**NOTE 12 – NET ASSETS** - Continued

Temporarily restricted net assets were released from donor and time restrictions as follows during the years ended December 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Satisfaction of donor imposed restrictions: | | |
| Specific programs conducted by the Region | $ 297,020 | $ 507,357 |
| Scholarships, training and projects | 41,841 | 93,072 |
| Research | 264,353 | 257 |
| Total satisfaction of donor imposed restrictions | 603,214 | 600,686 |
| Releases from restrictions due to time | 10,048 | 20,389 |
| Total temporarily restricted net assets released from restriction | $ 613,262 | $ 621,075 |

**NOTE 13 – OPERATING LEASES**

Rental expense for Region office space was $274,504 and $302,316 for the years ended December 31, 2013 and 2012, respectively. Lease agreements, having an original term of more than one year, expire on various dates through 2018.

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

| For the years ending December 31, | |
|---|---|
| 2014 | $ 136,529 |
| 2015 | 126,344 |
| 2016 | 118,218 |
| 2017 | 97,033 |
| 2018 | 92,211 |
| Total future minimum lease payments | $ 570,335 |

## NOTE 14 – EMPLOYEE BENEFIT PLAN

### Defined Benefit Plan

The Region maintains two defined benefit pension plans (the "Plans"). Certain employees of the Region are covered by the Pension Plan of Arthritis Foundation Southeast Region, Inc (the "ARK Plan"). The employees covered by the ARK Plan represent substantially, all of the former Arkansas Chapter employees. Certain employees of the Region are covered by the Pension Plan of Arthritis Foundation Georgia Chapter, Inc. (the "GA Plan"). The employees covered by the GA Plan represent substantially, all of the former Georgia Chapter employees. Benefits of the Plans are based on years of service and compensation. Contributions are determined in accordance with the Plans' provisions.

During 2010, management of the Region had elected to terminate the ARK Plan and the estimated cost to terminate the ARK Plan was recorded at December 31, 2010. During 2013, management determined it was not financially prudent to terminate the ARK Plan and an actuarial projection and analysis were performed for the year ended December 31, 2013. As of December 31, 2013 the Fair Value of Assets is $89,488 which is exceeded by the ARK Plan's Projected Benefit Obligation of $169,036. Therefore, the Region reported the difference of $79,548, as a liability in the statement of financial position.

As of December 31, 2013, the Fair Value of Assets of the GA Plan is $190,693 which is exceeded by the GA Plan's Projected Benefit Obligation of $317,168. Therefore, the Region reported the difference of $126,475, as a liability in the statement of financial position.

The following table illustrates the percentage of fair value of the total Plans' assets by each major category. All of the assets are considered Level I assets, at December 31, 2013 and 2012.

| | ARK Plan | | GA Plan | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Equity | 0% | 0% | 66% | 65% |
| Fixed income | 0% | 0% | 15% | 17% |
| Other | 100% | 100% | 19% | 18% |
| | 100% | 100% | 100% | 100% |

**NOTE 14 – EMPLOYEE BENEFIT PLAN** - Continued

The following table sets forth each of the Plans' funded status and amounts recognized in the Region's statement of financial position within accrued expenses and other liabilities.

| | 2013 | 2012 |
|---|---|---|
| ARK Plan: | | |
| Fair value of plan assets at year end | $ 89,488 | $ 103,232 |
| Projected benefit obligation/termination at year end | (169,036) | (180,984) |
| Funded status | $ (79,548) | $ (77,752) |
| GA Plan: | | |
| Fair value of plan assets at year end | $ 190,693 | $ 150,792 |
| Projected benefit obligation at year end | (317,168) | (318,657) |
| Funded status | $ (126,475) | $ (167,865) |
| Amounts recognized on the statement of financial position consist of: | | |
| Accrued pension liability - ARK Plan | $ 79,548 | $ 77,752 |
| Accrued pension liability - GA Plan | 126,475 | 167,865 |
| Total accrued pension liability | $ 206,023 | $ 245,617 |

| | ARK Plan | | GA Plan | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Accumulated benefit obligation | $ 169,036 | $ 180,984 | $ 317,168 | $ 318,657 |
| Employer contributions | - | - | 17,973 | 24,823 |
| Participant contributions | - | - | - | - |
| Benefits paid | 14,793 | 40,249 | 11,148 | 15,583 |

**NOTE 14 – EMPLOYEE BENEFIT PLAN** - Continued

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

| | ARK Plan | | GA Plan | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Pre-retirement discount rate | 4.75% | 3.80% | 4.35% | 3.75% |
| Post-retirement discount rate | 5.50% | 5.50% | 4.75% | 5.00% |
| Expected long-term return on plan assets* | 4.50% | 4.50% | 8.00% | 8.00% |
| Rate of compensation increase | 0.00% | 0.00% | 0.00% | 0.00% |

* Rate used for determination of net periodic benefit cost

The components of net periodic benefit for the Plans at December 31, 2013 and 2012 were:

| | ARK Plan | | GA Plan | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Service cost | $ 14,793 | $ 11,416 | $ 11,148 | $ 8,815 |
| Interest cost | 7,158 | 8,226 | 12,159 | 12,295 |
| Expected return on plan assets | (4,312) | (6,788) | (12,336) | (10,566) |
| Amortization of unrecognized transitional asset | - | (1,163) | - | - |
| Recognized actuarial (gain)/loss | - | (42) | 4,773 | 3,626 |
| Gain recognized due to settlement | - | (116) | - | - |
| Net periodic pension cost | $ 17,639 | $ 11,533 | $ 15,744 | $ 14,170 |

**NOTE 14 – EMPLOYEE BENEFIT PLAN** - Continued

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

| Fiscal Year beginning | ARK Plan | GA Plan |
|---|---|---|
| 2014 | $ 18,000 | $ - |
| 2015 | - | - |
| 2016 | - | - |
| 2017 | 21,000 | 21,000 |
| 2018 | - | 8,000 |
| Next five years | - | 234,000 |

The Expected Long-Term Rate of Return on Plan Assets assumption of eight percent was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection of Economic Assumptions for Measuring Pension Obligations. Based on the various Chapters' investment allocation for the pension plan in effect as of the beginning of fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 3.75 percent was selected and added to the real rate of return range to arrive at a best estimate range of 7.16 percent - 9.59 percent. A rate of eight percent which is within the best estimate range was selected.

The following is a reconciliation of items not yet reflected in the net periodic benefit cost for the Plans:

| | January 1, 2013 | Reclassified as Net Periodic Benefit Cost | Amounts Arising During Period | December 31, 2013 |
|---|---|---|---|---|
| Net gain (loss) - ARK Plan | $ (728) | $ - | $ (15,843) | $ (16,571) |
| Net gain (loss) - GA Plan | $ 108,046 | $ 4,773 | $ (34,388) | $ 68,885 |

**NOTE 14 – EMPLOYEE BENEFIT PLAN** - Continued

The Region recorded a $39,594 decrease and a $66,839 increase, in the unfunded portion of the benefit obligation and a corresponding change in unrestricted net assets to reflect the change in the funded status of the Plans for the years 2013 and 2012, respectively. The Region expects to make a contribution of $49,280 to the Plans during the year ended December 31, 2014. Additionally, no plan assets are expected to be returned to the employer for either of the Plans during 2014.

**Defined Contribution Plan**

The Region sponsors a defined contribution retirement plan (the “Plan") covering substantially all employees of the Region. The Region contributes between one and six percent of each eligible employee's compensation as specified in the Plan agreement. Total contributions to the Plan for the years ended December 31, 2013 and 2012 were $0 and $32,603, respectively.

**NOTE 15 – SUBSEQUENT EVENTS**

The Region has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2013 financial statements through March 18, 2014, the date that the financial statements were available to be issued.