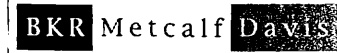


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Certified Public Accountants

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, 2005, 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 2004 financial statements, which were audited by other auditors whose report dated March 25, 2005, expressed an unqualified opinion on those 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, 2005, 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
March 24, 2006

**ARTHRITIS FOUNDATION, INC.
TENNESSEE CHAPTER**

Statement of Financial Position

December 31, 2005 with Summarized Financial Information for December 31, 2004

<u>Assets</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2005	2004
Cash and cash equivalents	\$ 225,674	\$ 52,100	\$ -	\$ 277,774	\$ 248,929
Investments	197,496	-	-	197,496	195,573
Due from national office	25,448	-	-	25,448	19,332
Accounts receivable	20,010	-	-	20,010	25,445
Contributions receivable (net of allowance for doubtful accounts and net present value of \$31,850)	10,280	254,166	-	264,446	229,840
Prepaid expenses and other assets	9,326	-	-	9,326	13,909
Property and equipment, net	6,880	-	-	6,880	7,200
Total assets	\$ 495,114	\$306,266	\$ -	\$ 801,380	\$ 740,228
 <u>Liabilities and Net Assets</u>					
Accounts payable	\$ 2,524	\$ -	\$ -	\$ 2,524	\$ 2,719
Due to national office	213,309	-	-	213,309	226,003
Accrued expenses and other liabilities	262	-	-	262	262
Total liabilities	216,095	-	-	216,095	228,984
Net assets	279,019	306,266	-	585,285	511,244
Total liabilities and net assets	\$ 495,114	\$306,266	\$ -	\$ 801,380	\$ 740,228

The accompanying notes are an integral part of these statements.

ARTHRITIS FOUNDATION, INC.
TENNESSEE CHAPTER
Statement of Activities

Year Ended December 31, 2005 with Summarized Financial Information for the Year Ended December 31, 2004

	Unrestricted	Temporarily restricted	Permanently restricted	Totals	
				2005	2004
Revenues, Gains and Public Support					
Personal major gifts	\$ 80,000	\$ -	\$ -	\$ 80,000	\$ 40,250
Personal annual gifts	72,863	87,868	-	160,731	211,063
Commerce and industry	94,526	32,500	-	127,026	115,221
Foundations	50	50,350	-	50,400	37,655
Memorials	13,779	-	-	13,779	22,193
Clubs and organizations	481	5,562	-	6,043	1,275
Direct mail	850	-	-	850	1,095
Membership/direct response mktg	238,855	-	-	238,855	213,304
Donated Vehicles	397	-	-	397	5,981
Total contributions	501,801	176,280	-	678,081	648,037
Special events - gross income	1,019,584	-	-	1,019,584	1,028,868
Less direct donor benefit costs	(116,849)	-	-	(116,849)	(133,719)
Bequests/planned giving	60,394	-	-	60,394	102,948
Total direct public support	1,464,930	176,280	-	1,641,210	1,646,134
Federated campaigns	19,218	-	-	19,218	27,962
United Way	95,988	-	-	95,988	66,734
Total indirect public support	115,206	-	-	115,206	94,696
Contributed goods and services	96,687	-	-	96,687	65,168
Total public support	1,676,823	176,280	-	1,853,103	1,805,998
Government grants	45,000	-	-	45,000	131,760
Investment and royalty income	11,102	-	-	11,102	7,654
Unrealized gains (losses) on investments	1,963	-	-	1,963	2,646
Realized gains (losses) on investments	-	-	-	-	1,719
Sales and service fees	20,466	-	-	20,466	25,069
Miscellaneous	17,055	-	-	17,055	12,420
Total other revenue	95,586	-	-	95,586	181,268
Net assets released from restrictions	153,824	(153,824)	-	-	-
Total revenues, gains and public support	1,926,233	22,456	-	1,948,689	1,987,266
Expenses					
Research	281,704	-	-	281,704	294,700
Public health education	561,119	-	-	561,119	518,836
Professional education & training	294,214	-	-	294,214	309,769
Patient & community services	430,407	-	-	430,407	442,315
Fundraising	182,506	-	-	182,506	137,374
Management & general	124,698	-	-	124,698	106,843
Total expenses	1,874,648	-	-	1,874,648	1,809,837
Change in net assets	51,585	22,456	-	74,041	177,429
Net assets, beginning of year	227,434	283,810	-	511,244	333,815
Net assets, end of year	\$ 279,019	\$ 306,266	\$ -	\$ 585,285	\$ 511,244

ARTHRITIS FOUNDATION, INC.
TENNESSEE CHAPTER
Statement of Functional Expenses

Year Ended December 31, 2005 with Summarized Financial Information for the Year Ended December 31, 2004

	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	2005	2004
<u>Expenses</u>										
Salaries	\$ 36,891	\$ 181,117	\$ 143,392	\$ 198,311	\$ 559,711	\$ 36,698	\$ 45,231	\$ 81,929	\$ 641,640	\$ 613,654
Payroll taxes	3,185	15,636	12,379	17,120	48,320	3,168	3,905	7,073	55,393	48,209
Employee benefits	3,193	15,675	12,410	17,164	48,442	3,176	3,915	7,091	55,533	63,514
Technology fees	3,307	16,238	12,856	17,779	50,180	3,290	4,055	7,345	57,525	58,975
Data processing and accounting services	814	3,994	3,162	4,374	12,344	809	998	1,807	14,151	16,616
Professional fees and contract services	1,631	8,007	6,339	8,767	24,744	1,622	2,000	3,622	28,366	27,391
Supplies	1,257	6,227	4,886	6,757	19,127	2,821	1,541	4,462	23,589	18,723
Printing, publications, and artwork	1,019	5,002	3,960	5,476	15,457	1,013	1,249	2,262	17,719	24,002
Materials expenses (including purchases from nat)	255	5,876	1,031	3,120	10,282	5,296	698	5,994	16,276	27,884
Membership/direct response marketing	-	42,757	-	-	42,757	24,051	-	24,051	66,808	59,725
Arthritis Today cost recovery	-	38,134	-	-	38,134	-	-	-	38,134	41,763
Postage, shipping, and delivery	1,043	5,128	4,054	5,606	15,831	1,116	1,279	2,395	18,226	17,498
Telephone	1,145	5,620	4,449	6,153	17,367	1,139	1,403	2,542	19,909	23,948
Occupancy	6,015	29,533	23,381	32,336	91,265	5,984	7,375	13,359	104,624	106,213
Taxes and licenses	36	175	138	191	540	35	44	79	619	155
Insurance	670	3,289	2,604	3,601	10,164	666	821	1,487	11,651	12,905
Staff travel	2,185	10,729	8,494	11,748	33,156	2,174	2,679	4,853	38,009	31,351
Volunteer travel	178	872	690	955	2,695	177	218	395	3,090	3,463
Meeting and conferences	2,422	11,892	9,415	13,021	36,750	2,543	2,970	5,513	42,263	33,247
Equipment lease and maintenance	756	3,713	2,940	4,066	11,475	752	927	1,679	13,154	13,183
Membership dues and subscriptions	214	1,049	831	1,149	3,243	213	262	475	3,718	7,179
Specific assistance to individuals	-	-	-	18,477	18,477	-	-	-	18,477	10,518
Advertising	105	515	408	564	1,592	104	129	233	1,825	6,645
Miscellaneous	864	4,244	3,360	4,646	13,114	860	1,060	1,920	15,034	10,456
Depreciation and amortization	348	1,706	1,351	1,868	5,273	346	426	772	6,045	6,058
Contributed goods and services	-	57,755	-	225	57,980	38,707	-	38,707	96,687	65,168
Uncollectible pledges	1,306	6,412	5,076	7,021	19,815	1,299	1,601	2,900	22,715	3,585
Total operating expenses	<u>68,839</u>	<u>481,295</u>	<u>267,606</u>	<u>390,495</u>	<u>1,208,235</u>	<u>138,159</u>	<u>84,786</u>	<u>222,945</u>	<u>1,431,180</u>	<u>1,352,028</u>
Share expense	<u>212,865</u>	<u>79,824</u>	<u>26,608</u>	<u>39,912</u>	<u>359,209</u>	<u>44,347</u>	<u>39,912</u>	<u>84,259</u>	<u>443,468</u>	<u>457,809</u>
Total expenses	<u>\$ 281,704</u>	<u>\$ 561,119</u>	<u>\$ 294,214</u>	<u>\$ 430,407</u>	<u>\$ 1,567,444</u>	<u>\$ 182,506</u>	<u>\$ 124,698</u>	<u>\$ 307,204</u>	<u>\$ 1,874,648</u>	<u>\$ 1,809,837</u>

The accompanying notes are an integral part of these statements.

ARTHRITIS FOUNDATION, INC.
TENNESSEE CHAPTER
Statement of Cash Flows

Year Ended December 31, 2005 with Summarized Financial Information for the Year Ended December 31, 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 74,041	\$ 177,429
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Depreciation and amortization	6,045	6,058
Donated investments	-	(1,159)
Net realized and unrealized (gains) on investments	(1,963)	(4,365)
Changes in asset and liabilities:		
(Increase) in due from national office	(6,116)	(3,338)
Decrease (increase) in accounts and notes receivable	5,435	(25,248)
(Increase) in contributions receivable	(34,606)	(85,038)
Decrease (increase) in prepaid expenses and other assets	4,583	(1,170)
(Decrease) in accounts payable	(195)	(1,674)
(Decrease) increase in due to national office	(12,694)	20,485
(Decrease) in accrued expenses and other liabilities	-	(19,913)
Net cash provided by operating activities	<u>34,530</u>	<u>62,067</u>
Cash flows from investing activities:		
Purchase of property and equipment	(5,725)	(9,967)
Purchase of investments	-	(218,712)
Proceeds from sale of investments	40	177,086
Net cash (used in) investing activities	<u>(5,685)</u>	<u>(51,593)</u>
Net increase in cash and cash equivalents	28,845	10,474
Cash and cash equivalents at beginning of year	<u>248,929</u>	<u>238,455</u>
Cash and cash equivalents at end of year	<u>\$ 277,774</u>	<u>\$ 248,929</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, 2005 with comparative amounts for 2004

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. The Chapter follows the accounting and reporting practices set forth in the American Institute of Certified Public Accountants industry audit guide, "Not-for-Profit Organizations".

Under this Accounting and Reporting Guide, net assets, revenues, expenses, gains and losses are classified 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.

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, 2005 with comparative amounts for 2004

Property and Equipment - Property and equipment is 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.

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.

All contributions are available for unrestricted use unless specifically restricted by the donor. The Chapter reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, donor restricted contributions whose restrictions expire in the same reporting period as received are reported as contributions available for unrestricted use.

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 2004 balances to conform with the 2005 presentation.

**ARTHRITIS FOUNDATION, INC.
TENNESSEE CHAPTER**

Notes to Financial Statements

As of and for the year ended December 31, 2005 with comparative amounts for 2004

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.

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, 2004 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, 2005 and 2004, share expense was \$443,468 and \$457,809, respectively. The Chapter is also allocated a portion of certain contributions received by the National Office, which for the years ended December 31, 2005 and 2004 was \$327,377 and \$283,952, respectively. The Chapter 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 \$142,690 and \$163,005 for 2005 and 2004, respectively.

4 INVESTMENTS

Investments at December 31, 2005 and 2004 were as follows:

	2005	2004
Certificates of deposit	\$ 139,978	\$ 142,529
Common stocks	55,311	50,797
Other - principally money market and other mutual funds	2,207	2,247
TOTAL	<u><u>\$ 197,496</u></u>	<u><u>\$ 195,573</u></u>

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, 2005 and 2004, unconditional promises to give were expected to be received as follows:

	2005	2004
In less than one year	\$ 137,045	\$ 84,548
In one to five years	151,976	172,415
In more than five years	7,275	9,200
Gross contributions receivable	<u>296,296</u>	<u>266,163</u>
Allowance for uncollectible amounts and net present value	<u>31,850</u>	<u>36,323</u>
Net contributions receivable	<u><u>\$ 264,446</u></u>	<u><u>\$ 229,840</u></u>

ARTHRITIS FOUNDATION, INC.
TENNESSEE CHAPTER

Notes to Financial Statements

As of and for the year ended December 31, 2005 with comparative amounts for 2004

6 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2005 and 2004 consisted of the following:

	estimated useful life	2005	2004
Leasehold improvements	(3-10 years)	\$ 7,767	\$ 7,767
Furniture and other equipment	(3-5 years)	76,494	70,770
		84,261	78,537
Less accumulated depreciation		77,381	71,337
		<u>\$ 6,880</u>	<u>\$ 7,200</u>

7 JOINT COSTS

In 2005 and 2004, the chapter incurred joint costs of \$66,808 and \$59,725 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, 2005 and 2004 were allocated as follows:

	2005	2004
Fundraising	\$ 24,051	\$ 21,501
Public health education	42,757	38,224
	<u>\$ 66,808</u>	<u>\$ 59,725</u>

8 NET ASSETS

Temporarily restricted net assets at December 31, 2005 and 2004 were available for the following purposes:

	2005	2004
Specific programs conducted by the Chapter	\$ 15,000	\$ 10,000
Research	3,100	3,100
Scholarships, training and projects	34,000	48,635
Use in future periods	254,166	222,075
	<u>\$ 306,266</u>	<u>\$ 283,810</u>

Release from restrictions consisted of the following in the years ended December 31, 2005 and 2004:

	2005	2004
Programs	\$ 103,048	\$ 75,118
Building improvements	-	3,627
Time releases	50,776	57,944
	<u>\$ 153,824</u>	<u>\$ 136,689</u>

9 OPERATING LEASES

Rental expense for Chapter office space was \$83,633 and \$94,788 for the years ended December 31, 2005 and 2004, respectively. Lease agreements having an original term of more than one year expire on various dates through 2007. Future minimum annual lease payments as of December 31, 2005 are as follows:

2006	\$ 108,358
2007	4,554
	<u>\$ 112,912</u>

ARTHRITIS FOUNDATION, INC.

TENNESSEE CHAPTER

Notes to Financial Statements

As of and for the year ended December 31, 2005 with comparative amounts for 2004

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, 2005 and 2004, respectively, were \$23,671 and \$16,889.