

Financial Statements and Independent Auditors' Report

Arthritis Foundation, Southeast Region, Inc.

Year Ended December 31, 2012
(With Summarized Financial Information for the
Year Ended December 31, 2011)



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, 2012, 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, 2012, 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 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 23, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Metcalf Davis

Atlanta, Georgia
May 1, 2013

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Statement of Financial Position

December 31, 2012 with Summarized Financial Information as of December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2012</u>	<u>2011</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 126,293	\$ 914,144	\$ 11,097	\$ 1,051,534	\$ 984,202
Investments	-	67,866	100,000	167,866	556,392
Due from National Office	89,602	-	-	89,602	355,751
Contributions receivable, net	1,945,060	648,595	-	2,593,655	2,517,929
Prepaid expenses and other assets	14,561	-	-	14,561	22,665
Beneficial interests in perpetual trusts	-	-	301,692	301,692	284,308
Property and equipment, net	<u>88,534</u>	<u>-</u>	<u>-</u>	<u>88,534</u>	<u>28,408</u>
 Total assets	 <u>\$ 2,264,050</u>	 <u>\$ 1,630,605</u>	 <u>\$ 412,789</u>	 <u>\$ 4,307,444</u>	 <u>\$ 4,749,655</u>
 <u>Liabilities and Net Assets</u>					
Accounts payable	\$ 153,864	\$ -	\$ -	\$ 153,864	\$ 85,846
Accrued expenses and other liabilities	324,021	-	-	324,021	227,981
Due to National Office	984,472	-	-	984,472	1,200,445
Debt obligations	<u>575,081</u>	<u>-</u>	<u>-</u>	<u>575,081</u>	<u>54,964</u>
Total liabilities	2,037,438	-	-	2,037,438	1,569,236
Net assets	<u>226,612</u>	<u>1,630,605</u>	<u>412,789</u>	<u>2,270,006</u>	<u>3,180,419</u>
 Total liabilities and net assets	 <u>\$ 2,264,050</u>	 <u>\$ 1,630,605</u>	 <u>\$ 412,789</u>	 <u>\$ 4,307,444</u>	 <u>\$ 4,749,655</u>

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Statement of Activities

Year Ended December 31, 2012 with Summarized Financial Information for the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2012	2011
<u>Operating Activities</u>					
Personal major gifts	\$ 50,000	\$ -	\$ -	\$ 50,000	\$ 1,162,500
Personal annual gifts	56,383	7,000	-	63,383	60,812
Commerce and industry gifts	610,041	21,066	-	631,107	758,056
Foundations	100,820	233,280	-	334,100	398,052
Memorials	21,776	50	-	21,826	15,101
Clubs and organizations	63,014	13,638	-	76,652	56,331
Direct mail	1,169	-	-	1,169	1,151
Membership/direct response marketing	826,140	-	-	826,140	866,782
Donated vehicles	2,329	-	-	2,329	705
Total contributions	1,731,672	275,034	-	2,006,706	3,319,490
Special events - gross income	1,975,329	-	-	1,975,329	1,964,944
Less direct donor benefit costs	(494,115)	-	-	(494,115)	(505,634)
Bequests/planned giving	492,754	10,598	-	503,352	2,074,519
Total direct public support	3,705,640	285,632	-	3,991,272	6,853,319
Federated campaigns	43,749	-	-	43,749	52,798
United Way	28,032	-	-	28,032	92,533
Total indirect public support	71,781	-	-	71,781	145,331
Total public support	3,777,421	285,632	-	4,063,053	6,998,650
Government grants	99,194	-	-	99,194	192,906
Sales and service fees	32,876	-	-	32,876	21,640
Investment return appropriated for operations	2,582	7,476	-	10,058	12,625
Rental income	-	-	-	-	4,400
Miscellaneous income	6,455	11,966	-	18,421	6,975
Total other revenue	141,107	19,442	-	160,549	238,546
Gain (loss) on uncollectible pledges	-	93,370	-	93,370	(212,739)
Net assets released from restrictions	621,075	(621,075)	-	-	-
Total revenues, gains and public support	4,539,603	(222,631)	-	4,316,972	7,024,457
<u>Expenses</u>					
Research	196,786	-	-	196,786	463,405
Public health education	2,449,641	-	-	2,449,641	2,961,206
Professional education and training	10,918	-	-	10,918	17,270
Patient and community services	1,487,264	-	-	1,487,264	1,258,983
Fundraising	546,570	-	-	546,570	662,958
Management and general	498,459	-	-	498,459	664,653
Total program and supporting services expenses	5,189,638	-	-	5,189,638	6,028,475
Change in net assets from operating activities	(650,035)	(222,631)	-	(872,666)	995,982
<u>Non-operating Activities</u>					
Gain on sale of property and equipment	-	-	-	-	162,252
Net change in pension liability	(66,839)	-	-	(66,839)	(103,263)
Investment return over (under) amounts appropriated for operations	(1,199)	12,907	-	11,708	3,627
Unrealized gain (loss) on beneficial interest in perpetual trusts	-	-	17,384	17,384	(3,410)
Change in net assets from non-operating activities	(68,038)	12,907	17,384	(37,747)	59,206
Change in net assets	(718,073)	(209,724)	17,384	(910,413)	1,055,188
Net assets, beginning of year	944,685	1,840,329	395,405	3,180,419	2,125,231
Net assets, end of year	\$ 226,612	\$ 1,630,605	\$ 412,789	\$ 2,270,006	\$ 3,180,419

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Statement of Functional Expenses

Year Ended December 31, 2012 with Summarized Financial Information for the Year Ended December 31, 2011

Expenses	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	2012	2011
Salaries	\$ -	\$ 857,313	\$ -	\$ 584,233	\$ 1,441,546	\$ 180,894	\$ 197,339	\$ 378,233	\$ 1,819,779	\$ 1,831,711
Payroll taxes	-	72,333	-	34,776	107,109	15,301	16,692	31,993	139,102	144,334
Employee benefits	-	131,597	-	63,268	194,865	27,838	30,368	58,206	253,071	228,898
Technology fees	-	81,202	-	43,239	124,441	17,178	18,739	35,917	160,358	175,258
Data processing and accounting services	-	32,970	-	17,382	50,352	6,974	7,609	14,583	64,935	77,297
Professional fees and contract services	-	66,846	-	65,878	132,724	13,718	14,965	28,683	161,407	173,759
Supplies	257	17,528	-	33,393	51,178	3,665	3,998	7,663	58,841	51,523
Printing, publications and artwork	-	36,390	-	30,133	66,523	7,525	8,209	15,734	82,257	88,254
Materials expenses	-	12,530	-	18,146	30,676	2,390	2,608	4,998	35,674	24,858
Membership/direct response marketing	-	229,254	-	-	229,254	80,549	-	80,549	309,803	289,314
Arthritis Today cost recovery	-	74,027	-	25,317	99,344	-	-	-	99,344	108,781
Postage, shipping and delivery	-	13,258	-	13,528	26,786	2,627	2,866	5,493	32,279	42,083
Telephone	-	22,339	-	13,962	36,301	4,725	5,155	9,880	46,181	53,685
Occupancy	-	157,175	-	75,621	232,796	33,249	36,271	69,520	302,316	238,858
Taxes and licenses	-	599	-	288	887	127	138	265	1,152	11,015
Insurance	-	22,371	-	10,756	33,127	4,732	5,163	9,895	43,022	42,804
Staff travel	-	52,116	-	37,112	89,228	10,770	11,749	22,519	111,747	134,494
Volunteer travel	-	5,675	-	8,911	14,586	1,200	1,310	2,510	17,096	22,509
Meetings and conferences	-	33,172	-	72,381	105,553	5,300	5,781	11,081	116,634	132,865
Equipment lease and maintenance	-	23,546	-	11,321	34,867	4,981	5,434	10,415	45,282	59,693
Membership dues and subscriptions	-	2,058	-	2,990	5,048	436	475	911	5,959	3,304
Specific assistance to individuals	-	-	-	51,031	51,031	-	-	-	51,031	54,958
Advertising	-	15,935	-	16,579	32,514	2,065	2,252	4,317	36,831	51,308
Interest	-	3,119	-	1,499	4,618	660	720	1,380	5,998	-
Miscellaneous	-	37,684	-	20,529	58,213	7,971	8,695	16,666	74,879	69,365
Depreciation	-	11,874	-	5,708	17,582	2,512	2,740	5,252	22,834	9,975
Total operating expenses	257	2,012,911	-	1,257,981	3,271,149	437,387	389,276	826,663	4,097,812	4,120,903
Share expense	196,529	436,730	10,918	229,283	873,460	109,183	109,183	218,366	1,091,826	1,907,572
Total expenses	\$ 196,786	\$ 2,449,641	\$ 10,918	\$ 1,487,264	\$ 4,144,609	\$ 546,570	\$ 498,459	\$ 1,045,029	\$ 5,189,638	\$ 6,028,475

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Statement of Cash Flows

December 31, 2012 with Summarized Financial Information as of December 31, 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (910,413)	\$ 1,055,188
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	22,834	9,975
Gain on sale of property and equipment	-	(162,252)
Net unrealized (gain) loss on beneficial interest in perpetual trusts	(17,384)	3,410
Net realized and unrealized gains on investments	(11,708)	(3,627)
Change in asset and liabilities:		
Due from National Office	266,149	107,085
Contributions receivable	(75,726)	(2,121,561)
Prepaid expenses and other assets	8,104	24,005
Accounts payable	68,018	84,143
Research awards and grants payable	-	(50,000)
Due to National Office	(215,973)	580,390
Accrued expenses and other liabilities	<u>96,040</u>	<u>89,945</u>
Net cash used in operating activities	<u>(770,059)</u>	<u>(383,299)</u>
Cash flows from investing activities		
Proceeds from sale of property and equipment	-	177,252
Purchases of property and equipment	(3,278)	(25,347)
Purchase of investments	(54,236)	(334,698)
Proceeds from sale of investments	<u>454,470</u>	<u>275,583</u>
Net cash provided by investing activities	<u>396,956</u>	<u>92,790</u>
Cash flows from financing activities		
Net proceeds from line of credit	500,000	-
Payments on note payable	(45,000)	(62,500)
Payments on capital lease obligations	<u>(14,565)</u>	<u>(4,798)</u>
Net cash provided by (used in) financing activities	<u>440,435</u>	<u>(67,298)</u>
Net increase (decrease) in cash and cash equivalents	<u>67,332</u>	<u>(357,807)</u>
Cash and cash equivalents at beginning of year	<u>984,202</u>	<u>1,342,009</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,051,534</u></u>	<u><u>\$ 984,202</u></u>

Noncash financing activities:

During 2012, the Region financed the purchased of \$79,682 in furniture and fixtures.

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

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. 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 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.

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. 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.

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 beneficial interests in perpetual trusts and changes in valuation of split-interest agreements.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 the mission of the Organization 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, 2012 and 2011.

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, 2012 and 2011 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, 2012, tax year ended December 31, 2011 and 2010 remained open for possible examination by the IRS.

Fair Value of Financial Instruments - The estimated fair value amounts for specific groups of financial instruments are presented within the notes applicable to such items. Prepaid expenses and other assets, accounts payable and accrued expenses and other liabilities are stated at cost, which approximates fair value, due to their short-term maturity.

The fair value of investments and funds held in trust by others is disclosed in other notes and is based upon quoted market values or values provided by external investment managers which were reviewed by management and the board.

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, 2012, the Region's uninsured cash balance was \$353,496. 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.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The various investments in stocks, securities, mutual funds, and other investments are exposed to a variety of uncertainties, including interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these instruments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Region.

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.

Beneficial Interests in Perpetual Trusts - The Region is the beneficiary of various trusts created by donors, 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 there from. 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 beneficial interest in perpetual trusts 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 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 expensed when incurred; significant renewals and betterments are capitalized. The Region reevaluated its capitalization policy and increased the threshold to \$5,000 beginning on January 1, 2011.

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. 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 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.

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.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

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 Chapter's financial statements as of and for the year ended December 31, 2011 from which the summarized financial information was derived.

Reclassifications - Certain reclassifications have been made to the 2011 balances to conform to the 2012 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) with the Arthritis Foundation, Inc., National Office (the "National Office"). For the years ended December 31, 2012 and 2011, share expense was \$1,091,826 and \$1,907,572, respectively. The Region is also allocated a portion of certain contributions received by the National Office, which for the years ended December 31, 2012 and 2011 was \$1,055,820 and \$1,063,636, 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 \$648,726 and \$596,874 in 2012 and 2011, respectively.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 4 – INVESTMENTS

Investments at December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Marketable securities:		
Domestic equity mutual funds	\$ 44,428	\$ 43,075
Common stock	-	103,451
Fixed income mutual funds	86,470	80,145
International equity mutual funds	<u>12,181</u>	<u>10,808</u>
Total marketable securities	<u>143,079</u>	<u>237,479</u>
Money market fund	<u>24,787</u>	<u>318,913</u>
Total investments	<u>\$ 167,866</u>	<u>\$ 556,392</u>

The following summarizes the Region's total investment return:

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

	<u>December 31, 2011</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Dividend and interest income	\$ 7,952	\$ 4,673	\$ 12,625
Net realized gains (losses)	(105)	6,569	6,464
Net unrealized gains (losses)	<u>6,321</u>	<u>(9,158)</u>	<u>(2,837)</u>
	14,168	2,084	16,252
Less investment return appropriated for operations	<u>7,952</u>	<u>4,673</u>	<u>12,625</u>
Investment return over (under) amount designated for operations	<u>\$ 6,216</u>	<u>\$ (2,589)</u>	<u>\$ 3,627</u>

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 4 – INVESTMENTS - Continued

Investment management fees totaled \$2,546 and \$2,312 for the years ending December 31, 2012 and 2011.

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 or liabilities. Level I assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury Securities.

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

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 perpetual trusts which are valued based on the market value of the underlying securities as provided by the trustee.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 5 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Region's marketable securities and interest in perpetual trusts by the above hierarchy levels as of December 31, 2012 and 2011:

	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	<u>86,470</u>	<u>-</u>	<u>-</u>	<u>86,470</u>
Total marketable securities	143,079	-	-	143,079
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>301,692</u>	<u>301,692</u>
Total	<u>\$ 143,079</u>	<u>\$ -</u>	<u>\$ 301,692</u>	<u>\$ 444,771</u>

	December 31, 2011			
	Level I	Level II	Level III	Total
Common stocks				
Consumer discretionary	\$ 102,359	\$ -	\$ -	\$ 102,359
Oil and gas industry	-	-	-	-
Medical	1,092	-	-	1,092
International equity mutual funds	10,808	-	-	10,808
Domestic equity mutual funds	43,075	-	-	43,075
Other	<u>80,145</u>	<u>-</u>	<u>-</u>	<u>80,145</u>
Total marketable securities	237,479	-	-	237,479
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>284,308</u>	<u>284,308</u>
Total	<u>\$ 237,479</u>	<u>\$ -</u>	<u>\$ 284,308</u>	<u>\$ 521,787</u>

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 5 – FAIR VALUE MEASUREMENTS - Continued

During the current financial year there were no significant transfers between levels.

The following table summarized the Region's Level III reconciliation for the beneficial interest in perpetual trust for the years ended December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Beginning balance	\$ 284,308	\$ 287,718
Net unrealized gain (loss)	<u>17,384</u>	<u>(3,410)</u>
Ending balance	<u><u>\$ 301,692</u></u>	<u><u>\$ 284,308</u></u>

Valuation Techniques and Significant Inputs

During 2012 and 2011, the Region had no Level II investments.

Level III includes the Region's interest in perpetual trusts. The fair value is based on the value of the Region's portion of the underlying investments in the trusts using valuation methods that are appropriate for those investments as determined by the trustee.

Quantitative information related to valuation inputs is not available since the value of the trusts that was provided by the trustees was used without adjustment. On an annual basis, Region management evaluates the return received from the trusts against the value of its portion of the trusts for reasonableness as compared with current market returns. Management believes that the sensitivity in the fair value measurement of the beneficial interests is related to market fluctuations, as the investments held in the trusts are primarily marketable securities.

NOTE 6 – ENDOWMENTS

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

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 6 – ENDOWMENTS - Continued

The remaining portion of donor-restricted endowment fund in excess of the 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, 2012 and 2011.

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 for the support of operations by the endowments. In addition, the policy minimizes the probability of invading the principal over the long-term. Spending in a given year reduces the unit value of each endowment element by the payout percentage. In no case are funds designated as True Endowment reduced below their initial unit value. In the case of short-term declines in the market value of the endowment pool of funds, the overall spending rate may be calculated below designated payout percentage in order to maintain the original unit value of certain elements of the true endowment. Growth of the unit values over time should allow for spending of principal, without drawing from the original corpus of a particular gift.

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.).

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 6 – ENDOWMENTS - Continued

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, 2012 and 2011:

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

	December 31, 2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board designated	\$ 25,326	\$ -	\$ -	\$ 25,326
Donor restricted	<u>-</u>	<u>15,151</u>	<u>111,097</u>	<u>126,248</u>
Total	<u>\$ 25,326</u>	<u>\$ 15,151</u>	<u>\$ 111,097</u>	<u>\$ 151,574</u>

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 6 – ENDOWMENTS - Continued

Change in endowment net assets:

	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	<u>\$ 25,767</u>	<u>\$ 32,682</u>	<u>\$ 111,097</u>	<u>\$ 169,546</u>
	December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ -	\$ 40,704	\$ 111,097	\$ 151,801
Contributions	25,326	-	-	25,326
Investment return				
Investment income	-	2,362	-	2,362
Net appreciation	-	(2,589)	-	(2,589)
Total investment return	-	(227)	-	(227)
Appropriation of endowment assets for expenditure	-	(25,326)	-	(25,326)
Endowment net assets, end of the year	<u>\$ 25,326</u>	<u>\$ 15,151</u>	<u>\$ 111,097</u>	<u>\$ 151,574</u>

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 7 – CONTRIBUTIONS RECEIVABLE

The Region had the following contributions receivable at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Amount due in:		
Less than one year	\$ 2,166,418	\$ 2,023,941
One to five years	434,528	658,115
Gross contributions receivable	<u>2,600,946</u>	<u>2,682,056</u>
Allowance for doubtful accounts	(3,320)	(148,190)
Unamortized present value discount	<u>(3,971)</u>	<u>(15,937)</u>
 Net contributions receivable	 <u><u>\$ 2,593,655</u></u>	 <u><u>\$ 2,517,929</u></u>

Contributions receivable are net of the unamortized present value discount which was calculated at the date of donation using a rate of four percent.

NOTE 8 – BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

At December 31, 2012 and 2011, the Region had \$301,692 and \$284,308, respectively, in beneficial interest in perpetual trusts. These trust assets are reported on the statement of financial position and are reported at fair-value.

NOTE 9 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Furniture and other equipment (useful life 3-5 years)	\$ 230,551	\$ 147,591
Less: accumulated depreciation	<u>(142,017)</u>	<u>(119,183)</u>
 Net property and equipment	 <u><u>\$ 88,534</u></u>	 <u><u>\$ 28,408</u></u>

Depreciation expense was \$22,834 and \$9,975 for the years ended December 31, 2012 and 2011, respectively.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 10 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Pension	\$ 245,617	\$ 178,778
Vacation	36,746	39,581
Other	<u>41,658</u>	<u>9,622</u>
Total accrued expenses and other liabilities	<u><u>\$ 324,021</u></u>	<u><u>\$ 227,981</u></u>

NOTE 11 - DEBT OBLIGATIONS

The Region had a demand note payable in the amount of \$45,000 at December 31, 2011, which was paid during 2012.

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, 2012 and 2011 were \$71,714 and \$9,964, respectively, and are included in property and equipment on the statement of financial position.

Future minimum lease payments under capital leases are as follows:

<u>For the years ending December 31,</u>	
2013	\$ 19,292
2014	18,958
2015	18,958
2016	18,958
2017	<u>11,005</u>
Total future minimum lease payments	87,171
Less amounts representing interest	<u>(12,090)</u>
Present value of net minimum lease payments	<u><u>\$ 75,081</u></u>

The Region has an annually renewable line of credit with a local bank in the amount of \$750,000. The interest rate is variable and is based on the prime rate as published by the Wall Street Journal. The interest rate at December 31, 2012 was 3.25 percent. At December 31, 2012, the line of credit had a balance of \$500,000. The line of credit which matures on March 26, 2013 was paid on March 4, 2013.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 12 – JOINT COSTS

In 2012 and 2011, the Region incurred joint costs of \$309,803 and \$289,314 for informational materials and activities that included fundraising appeals, such as the Region's direct mail. Joint costs for the years ended December 31, 2012 and 2011 were allocated as follows:

	<u>2012</u>	<u>2011</u>
Public health education	\$ 229,254	\$ 202,520
Fundraising	<u>80,549</u>	<u>86,794</u>
	<u>\$ 309,803</u>	<u>\$ 289,314</u>

NOTE 13 – NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Specific programs to be conducted by the Region	\$ 904,679	\$ 1,135,895
Scholarships, training and projects	660,564	57,749
Research	39,445	571,889
Use in future periods	<u>25,917</u>	<u>74,796</u>
	<u>\$ 1,630,605</u>	<u>\$ 1,840,329</u>

Permanently restricted net assets consisted of the following at December 31, 2012 and 2011 and represent endowed gifts to be held in perpetuity with the investment income to be used for:

	<u>2012</u>	<u>2011</u>
Research and specific projects	\$ 169,891	\$ 167,446
Operations	<u>242,898</u>	<u>227,959</u>
	<u>\$ 412,789</u>	<u>\$ 395,405</u>

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 13 – NET ASSETS - Continued

Temporarily restricted net assets were released from donor and time restrictions as follows during the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Satisfaction of donor imposed restrictions:		
Specific programs conducted by the Region	\$ 507,357	\$ 536,226
Scholarships, training and projects	93,072	105,459
Research	<u>257</u>	<u>135,000</u>
Total satisfaction of donor imposed restrictions	<u>600,686</u>	<u>776,685</u>
Time releases	<u>20,389</u>	<u>9,404</u>
Total temporarily restricted net assets released from restriction	<u>\$ 621,075</u>	<u>\$ 786,089</u>

NOTE 14 – OPERATING LEASES

Rental expense for Region office space was \$302,316 and \$238,858 for the years ended December 31, 2012 and 2011, 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, 2012 are as follows:

For the years ending December 31,

2013	\$ 208,738
2014	163,414
2015	154,027
2016	147,065
2017	127,104
Thereafter	<u>85,124</u>
Total future minimum lease payments	<u>\$ 885,472</u>

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 15 – EMPLOYEE BENEFIT PLAN

Defined Benefit Plan

The former Arkansas Chapter had a defined benefit pension plan (the “ARK Plan”) which management of the Region elected to terminate during the year ended December 31, 2010. The estimated cost to terminate this plan, based on eligible participants, totals \$180,984 at December 31, 2012. Management believes the termination cost estimate is adequate to fund the remaining benefits to be paid by the ARK Plan; however, actual results could differ from these estimates. Plan assets which totaled \$103,232 for the year ended December 31, 2012 are invested in an insurance contract which guarantees principal and earns a fixed rate of return which is reset annually. The unfunded status of this Plan was \$77,752 at December 31, 2012 and has been recognized as a pension liability in the statement of financial position within accrued expenses and other liabilities. No additional disclosure information was available for the ARK Plan.

The former Georgia Chapter has a defined benefit pension plan (the “GA Plan”) covering substantially all of the former Georgia Chapter employees. Benefits are based on years of service and compensation. Contributions are determined in accordance with the GA Plan’s provisions.

The following table illustrates the percentage of fair value of total GA Plan assets for each major category of plan assets, all of which are considered Level I assets, at December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Equity	65%	69%
Fixed income	17%	18%
Other	<u>18%</u>	<u>13%</u>
	<u>100%</u>	<u>100%</u>

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

	<u>2012</u>	<u>2011</u>
Fair value of plan assets at year end	\$ 150,792	\$ 127,457
Projected benefit obligation at year end	<u>(318,657)</u>	<u>(291,489)</u>
Funded status	<u>\$ (167,865)</u>	<u>\$ (164,032)</u>
Amounts recognized on the statement of financial position consist of:		
Accrued benefit cost	<u>\$ (167,865)</u>	<u>\$ (164,032)</u>

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 15 – EMPLOYEE BENEFIT PLAN - Continued

	<u>2012</u>	<u>2011</u>
Accumulated benefit obligation	\$ 318,657	\$ 291,489
Employer contributions	24,823	6,694
Participant contributions	-	-
Benefits paid	15,583	91,082

Weighted average assumptions for the GA Plan as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Discount rate	4.25%	5.3%
Expected return on plan assets	8%	7%
Rate of compensation increase	6%	6%
Benefit cost	\$ 14,170	\$ 12,227

The components of net periodic benefit for the GA Plan at December 31, 2012 and 2011 were:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 8,815	\$ 11,251
Interest cost	12,295	15,479
Expected return on plan assets	(10,566)	(14,931)
Amount of recognized actuarial (gains) or losses	<u>3,626</u>	<u>428</u>
Net periodic pension cost	<u>\$ 14,170</u>	<u>\$ 12,227</u>

The following represents the GA Plan's estimate of benefit payments for the plan to be made in the next five years and in the aggregate for the five years thereafter:

<u>Year ended December 31,</u>	
2013	\$ -
2014	-
2015	-
2016	-
2017	21,000
Five years thereafter	<u>236,000</u>
Total estimated benefit payments for the next ten years	<u>\$ 257,000</u>

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Notes to Financial Statements

December 31, 2012 with Summarized Information for the Year Ended December 31, 2011

NOTE 15 – EMPLOYEE BENEFIT PLAN - Continued

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 GA Plan:

	January 1, 2012	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	Effect of Settlement	December 31, 2012
Net gain (loss)	\$ 93,560	\$ 3,626	\$ 18,112	\$ -	\$ 115,298

No plan assets are expected to be returned to the Region during the 2012 fiscal year.

During 2012 and 2011, the Region recorded a \$66,839 and \$103,263 increase, respectively, in the unfunded portion of the benefit obligation and a corresponding decrease in unrestricted net assets to reflect the change in the funded status of both plans.

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, 2012 and 2011 were \$32,603 and \$32,733, respectively.

NOTE 16 – SUBSEQUENT EVENTS

The Region has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2012 financial statements through May 1, 2013, the date that the financial statements were available to be issued.

On January 29, 2013, the Region relinquished its charter agreement with the National Office and continued to operate as a division of the National Office.