NATIONAL OSTEOPOROSIS FOUNDATION

Financial Statements

For the Year Ended December 31, 2011
(With Summarized Financial Information for the Year Ended December 31, 2010)

and
Report Thereon

RAFFA

CONSULTING
ACCOUNTING
TECHNOLOGY

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
National Osteoporosis Foundation

We have audited the accompanying statement of financial position of the National Osteoporosis Foundation (the Foundation) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation'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 Foundation's 2010 financial statements and, in our report dated May 12, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation'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 Foundation as of December 31, 2011, 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.

Raffa, P.C.

RAFFA, P.C.

Washington, DC
May 14, 2012

NATIONAL OSTEOPOROSIS FOUNDATION

STATEMENT OF FINANCIAL POSITION
December 31, 2011
(With Summarized Financial Information as of December 31, 2010)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 598,273	$ 3,178,172
Accounts receivable	79,592	140,390
Grants and contributions receivable	445,410	418,029
Investments	4,555,148	2,924,640
Prepaid expenses	184,001	291,773
Inventory	122,837	102,303
Property and equipment, net of accumulated depreciation and amortization of $291,583 and $181,740	406,955	194,676
TOTAL ASSETS	$ 6,392,216	$ 7,249,983
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 908,601	$ 433,422
Line of credit	650,000	-
Deferred revenue	33,261	21,831
Deferred rent	56,789	42,137
Capital lease obligations	-	2,114
Total Liabilities	1,648,651	499,504
NET ASSETS		
Unrestricted	3,395,783	5,739,832
Temporarily restricted	1,167,770	830,635
Permanently restricted	180,012	180,012
Total Net Assets	4,743,565	6,750,479
TOTAL LIABILITIES AND NET ASSETS	$ 6,392,216	$ 7,249,983

The accompanying notes are an integral part of these financial statements.

NATIONAL OSTEOPOROSIS FOUNDATION

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011
(With Summarized Financial Information for the Year Ended December 31, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
REVENUE AND SUPPORT					
Grants and contributions	$ 1,454,269	$ 190,357	$ -	$ 1,644,626	$ 2,066,874
Royalties and consulting income	345,117	-	-	345,117	845,528
Legacies and bequests	276,976	69,500	-	346,476	702,890
International Symposium on Osteoporosis	396,195	287,500	-	683,695	532,024
Annual dinner and other special events	235,308	69,135	-	304,443	373,273
Investment (loss) income	(9,652)	2,450	-	(7,202)	139,107
Donated services and materials	1,114,424	-	-	1,114,424	104,452
Membership dues	76,110	-	-	76,110	94,941
Publications sales	57,770	-	-	57,770	92,072
Miscellaneous income	11,944	-	-	11,944	24,379
Net assets released from restrictions:					
Satisfaction of program restrictions	231,509	(231,509)	-	-	-
Satisfaction of time restrictions	50,298	(50,298)	-	-	-
TOTAL REVENUE AND SUPPORT	4,240,268	337,135	-	4,577,403	4,975,540
EXPENSES					
Program Services:					
National Bone Health Alliance	1,593,639	-	-	1,593,639	50,680
Patient education	800,904	-	-	800,904	889,117
Professional education	861,806	-	-	861,806	807,685
Public policy	688,349	-	-	688,349	632,049
Communications	835,912	-	-	835,912	622,960
Membership	73,330	-	-	73,330	65,878
Research	12,640	-	-	12,640	558
Total Program Services	4,866,580	-	-	4,866,580	3,068,927
Supporting Services:					
Management and general	525,139	-	-	525,139	408,413
Fundraising	1,192,598	-	-	1,192,598	1,396,836
Total Supporting Services	1,717,737	-	-	1,717,737	1,805,249
TOTAL EXPENSES	6,584,317	-	-	6,584,317	4,874,176
CHANGE IN NET ASSETS	(2,344,049)	337,135	-	(2,006,914)	101,364
NET ASSETS, BEGINNING OF YEAR	5,739,832	830,635	180,012	6,750,479	6,649,115
NET ASSETS, END OF YEAR	$ 3,395,783	$ 1,167,770	$ 180,012	$ 4,743,565	$ 6,750,479

The accompanying notes are an integral part of these financial statements.

NATIONAL OSTEOPOROSIS FOUNDATION

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011
(With Summarized Financial Information for the Year Ended December 31, 2010)
Increase (Decrease) in Cash and Cash Equivalents

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$(2,006,914)	$ 101,364
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized losses (gains) on investments	156,956	(102,650)
Depreciation and amortization	109,843	51,619
Donation of securities	(7,314)	(5,346)
Changes in assets and liabilities:		
Accounts receivable	60,798	257,824
Grants and contributions receivable	(27,381)	231,846
Prepaid expenses	107,772	(144,789)
Inventory	(20,534)	5,037
Accounts payable and accrued expenses	475,179	(65,395)
Deferred revenue	11,430	(155,126)
Deferred rent	14,652	42,137
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(1,125,513)	216,521
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(322,122)	(152,980)
Proceeds from sales of investments	1,395,144	1,055,869
Purchases of investments	(3,175,294)	(2,757,245)
NET CASH USED IN INVESTING ACTIVITIES	(2,102,272)	(1,854,356)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(2,114)	(19,014)
Drawdowns from line of credit	650,000	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	647,886	(19,014)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,579,899)	(1,656,849)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,178,172	4,835,021
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 598,273	$ 3,178,172
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 1,417	$ 2,618
Donated stock	$ 7,314	$ 5,346

The accompanying notes are an integral part of these financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

The National Osteoporosis Foundation (the Foundation) is America's only national nonprofit, voluntary health organization dedicated to reducing the widespread prevalence of osteoporosis through programs of research, education and advocacy. Founded in 1984, the Foundation has become the leading authority for patients, health professionals, and the public for osteoporosis information, programs, and services. The Foundation is supported primarily by grants and contributions from foundations, corporations, individuals and fundraising events.

Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less as cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management closely monitors outstanding balances and writes off balances that are deemed uncollectible, if any. Consequently, no bad debt allowance has been recorded.

Investments

Investments consist of equities, fixed income mutual funds and equity mutual funds. Investments are reflected in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of investments are recorded on a trade date basis. Investment income is recorded as an increase in unrestricted net assets, unless restricted by donor or law. Investment securities are exposed to various risks such as interest rate, market and credit risks. Accordingly, it is at least reasonably possible that changes in investment values will occur in the near term, and such changes could affect balances and amounts reported in the accompanying statement of financial position.

Fair Value of Financial Instruments

In accordance with the accounting standards for fair value measurements for those assets and liabilities which are measured at fair value on a recurring basis, the Foundation has categorized its applicable financial instruments into a required three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

> *Level 1* – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access.
>
> *Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
>
> *Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of December 31, 2011, only the Foundation's investments, as described in Note 3, were measured at fair value on a recurring basis.

Inventory

Inventory consists of publications, videos and accessories and is stated at the lower of cost or market value on the first-in, first-out basis.

Property and Equipment and Related Depreciation and Amortization

Property and equipment are recorded at cost or, if donated, at the fair value on the date of the donation and are depreciated on a straight-line basis over the estimated useful lives of the respective asset. The Foundation recognizes the costs incurred in the development of its web site in accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350-50, *Website Development Costs*. Accordingly, costs incurred during the application stage of development are capitalized. Depreciation and amortization on property and equipment is computed using the following estimated useful lives: furniture and fixtures, 5-7 years, office equipment, 3-5 years, web site development and computer software costs, 3 years. When assets are retired or sold, any gain or loss arising from such disposition is included as income or expense. Expenditures for repairs and maintenance are expensed as incurred.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Deferred Revenue

Deferred revenue consists of prepaid conference fees and special events fees for the following fiscal year. Conference and special events fees are recognized in the year the event takes place.

Classification of Net Assets

The net assets of the Foundation are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Foundation's general operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various programs or for future periods.
- Permanently restricted net assets represent the portion of net assets subject to donor-imposed stipulations that the gift be maintained in perpetuity by the Foundation. The donors of these assets permit the Foundation to use all of the income earned on related investments for specific purposes.

Revenue Recognition

The Foundation reports grants and contributions as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a 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. When a donor restriction is fulfilled in the same year as the contribution is received, the contribution is recognized as unrestricted support. Unconditional grants and contributions that have been promised but not yet received are reflected as grants and contributions receivable in the accompanying statement of financial position.

Wills are recorded as legacies and bequests revenue upon death after the probate courts declare the wills to be valid and the proceeds are measurable.

Special events revenue is recognized in the year in which the related events are held. Amounts other than donations, collected for future events, are classified as deferred revenue in the accompanying statement of financial position.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Donated Services and Materials

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that are provided by individuals possessing specialized skills are recorded at fair value in the period received if such services would typically be purchased if not provided by donation. The majority of the Foundation's donated services and materials are free advertising in magazines.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services directly benefited, or upon management's estimates of the proportion of these costs applicable to each function.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Contributions Receivable

Grants and contributions receivable represent amounts due from corporations, individuals, bequests, and a charitable remainder annuity trust and are scheduled to be received as follows:

Within one year	$ 286,436
Within two to five years	-
Thereafter	158,974
Total	$ 445,410

All amounts are considered fully collectible.

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3. Investments

The following table summarizes the Foundation's investments measured at fair value on a recurring basis as of December 31, 2011, aggregated by the fair value hierarchy level with which those measurements were made:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed-income mutual funds:				
Intermediate bonds	$ 1,076,294	$ 1,076,294	$ -	$ -
Short-term bonds	472,361	472,361	-	-
High-yield bonds	133,249	133,249	-	-
Long-term bonds	118,379	118,379	-	-
Government bonds	117,922	117,922	-	-
Commodity	113,910	113,910	-	-
Equity mutual funds:				
Large-cap	1,863,208	1,863,208	-	-
Small-cap	373,490	373,493	-	-
Real estate	129,864	129,864	-	-
Diversified emerging markets	126,891	126,891	-	-
Mid-cap	27,780	27,780	-	-
Equities	1,800	1,800	-	-
Total	$ 4,555,148	$ 4,555,148	$ -	$ -

The Foundation used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Mutual funds and equities – Where quoted prices are available in an active market for identical assets, investments are classified within Level 1 of the valuation hierarchy.

3. Investments (continued)

Investment returns consisted of the following for the year ended December 31, 2011:

Interest and dividends	$ 171,591
Net realized and unrealized losses	(156,956)
Transaction fees	(20,149)
Investment management fees	(1,688)
Total Investment Loss	$ (7,202)

Investment income includes $4,351 of interest earned from cash equivalents.

4. Property and Equipment and Accumulated Depreciation and Amortization

The Foundation held the following property and equipment as of December 31, 2011:

Web site development costs and computer software	$ 515,465
Office equipment	129,448
Furniture and fixtures	53,625
Total property and equipment	698,538
Less: Accumulated depreciation and amortization	(291,583)
Property and Equipment, Net	$ 406,955

Depreciation and amortization expense for the year ended December 31, 2011 was $109,843.

5. Line of Credit

On October 6, 2011, the Foundation entered into a line of credit agreement with a financial institution for $1,250,000, drawdowns from which are to be used to meet working capital requirements of the Foundation. The line of credit is secured by the Foundation's investments. Interest accrues on the unpaid principal at the rate of one month libor plus 1.5%, which was 1.82% as of December 31, 2011. Any amounts outstanding on the line of credit, plus any accrued interest, are due and payable on October 6, 2013. As of December 31, 2011, the outstanding balance was $650,000.

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6. Temporarily Restricted Net Assets

As of December 31, 2011, temporarily restricted net assets were available for the following purposes:

Programs	$ 641,496
Special events	362,640
Time restricted	163,634
Total Temporarily Restricted Net Assets	$ 1,167,770

7. Permanently Restricted Net Assets

The Foundation's endowment consists of donor-restricted endowment funds which are shown as permanently restricted net assets in the accompanying financial statements. As of December 31, 2011, the permanently restricted net assets totaled $180,012 and the income earned on these nets assets is restricted by the donor. The Shou Mei Hu – Cecelia Wu Kojima Fund totaled $80,012 and the restricted income is for medical and scientific research related to the prevention, cure, and/or treatment of osteoporosis. The Dr. Burton Spiller Fund for Bone Health Research totaled $100,000 and the restricted income is for medical research regarding bone health and bone research grants.

Temporarily restricted investment earnings from the permanently restricted net assets which are available to be spent totaled $8,474 as of December 31, 2011 of which $2,450 was earned during the year ended December 31, 2011. Investment earnings on endowment funds are expended for the restricted purpose required in the year earned, if possible. However, the Foundation did not award research grants in 2011.

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees of the Foundation has interpreted 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. As a result of this interpretation, the Foundation 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 the applicable donor gift instrument at the time the accumulation is added to the fund. The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

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8. Commitments and Contingencies

Operating Lease

In September 2009, the Foundation entered into a sublease agreement for furnished office space in Washington, DC. The sublease commenced on September 15, 2009, and will expire on June 30, 2015. Under the terms of the lease, the base rent is subject to an annual increase of 5%. As part of the lease agreement, the Foundation was required to obtain an irrevocable standby letter of credit in the amount of $168,000. The letter of credit was issued on September 14, 2009, and automatically renews each August 31 for 12-month periods through August 31, 2015.

Under accounting principles generally accepted in the United States of America, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying statement of financial position.

Future minimum lease payments required under the lease are as follows as of December 31, 2011:

For the Years Ending December 31,	
2012	$ 300,730
2013	315,766
2014	331,555
2015	171,532
Total	$ 1,119,583

Rent expense for the year ended December 31, 2011 totaled $300,420.

Continued

9. Allocation of Joint Costs

The Foundation conducts activities that include requests for contributions as well as program and management and general components. Those activities include direct mail campaigns and special events. The costs of conducting those activities for the year ended December 31, 2011 included joint costs which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

Fundraising	$ 301,637
Programs	227,130
Management and general	48,004
Total Joint Costs	$ 576,771

10. Retirement Plans

The Foundation sponsors a tax-deferred annuity plan covering employees working greater than 20 hours per week. All employees are eligible to participate immediately upon hire. After completion of three months of service, the Foundation will make a matching contribution equal to 4% of compensation for any eligible employee contributing at least 1%. Employee and employer contributions, plus any earnings, are 100% vested. The Foundation's total contributions to the plan for the year ended December 31, 2011 was $42,538.

11. Reclassifications

Certain 2010 amounts have been reclassified to conform with the 2011 presentation.

12. Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The Foundation files federal Forms 990 and 990-T tax returns in the U.S. federal jurisdiction and in various states. No provision for income taxes is required for the year ended December 31, 2011, as the Foundation had no net unrelated business income.

The Foundation follows the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and

Continued

12. Income Taxes (continued)

derecognition of tax positions taken or expected to be taken in a tax return. The Foundation performed an evaluation of uncertain tax positions for the year ended December 31, 2011, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. For the year ended December 31, 2011, the statute of limitations for tax years 2008 through 2010 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Foundation files tax returns. It is the Foundation's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2011, the Foundation had no accruals for interest and/or penalties.

13. Subsequent Events

The Foundation's management has evaluated events and transactions for potential recognition or disclosure through May 14, 2012, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.