Arthritis Foundation, Southeast Region, Inc.

Financial Statements as of and for the
Year ended December 31, 2011

With Summarized Financial Information for the
Year ended December 31, 2010

and

Independent Auditors' Report

Metcalf Davis

Certified Public Accountants

Tower Place, Suite 2600
3340 Peachtree Road, NE
Atlanta, Georgia 30326

404. 264.1700
FAX 404.264.9968

www.metcalf-davis.com

Metcalf Davis

Certified Public Accountants

Report of Independent Auditors

Board of Directors
Arthritis Foundation, Southeast Region, Inc.

We have audited the accompanying statement of financial position of the Arthritis Foundation, Southeast Region, Inc., (a nonprofit organization) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Region'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 Region's 2010 financial statements and, in our report dated March 18, 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 Region'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, Southeast Region, Inc., 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.

Metcalf Davis

Atlanta, Georgia
March 23, 2012

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Statement of Financial Position

December 31, 2011 with Summarized Financial Information as of December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2011	Totals 2010
Assets					
Cash and cash equivalents	$ 94,611	$ 889,591	$ -	$ 984,202	$ 1,342,009
Investments	318,493	126,802	111,097	556,392	493,650
Due from National Office	316,251	39,500	-	355,751	462,836
Contributions receivable, net	1,729,281	788,648	-	2,517,929	396,368
Prepaid expenses and other assets	22,665	-	-	22,665	46,670
Beneficial interests in perpetual trusts	-	-	284,308	284,308	287,718
Property and equipment, net	28,408	-	-	28,408	28,036
Total assets	$ 2,509,709	$ 1,844,541	$ 395,405	$ 4,749,655	$ 3,057,287
Liabilities and Net Assets					
Accounts payable	$ 81,634	$ 4,212	$ -	$ 85,846	$ 1,703
Accrued expenses and other liabilities	227,981	-	-	227,981	138,036
Research awards and grants payable	-	-	-	-	50,000
Due to National Office	1,200,445	-	-	1,200,445	620,055
Debt obligations	54,964	-	-	54,964	122,262
Total liabilities	1,565,024	4,212	-	1,569,236	932,056
Net assets	944,685	1,840,329	395,405	3,180,419	2,125,231
Total liabilities and net assets	$ 2,509,709	$ 1,844,541	$ 395,405	$ 4,749,655	$ 3,057,287

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.
Statement of Activities
Year Ended December 31, 2011 with Summarized Financial Information for the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2011	Totals 2010
Operating Activities					
Personal major gifts	$ 62,500	$ 1,100,000	$ -	$ 1,162,500	$ 106,400
Personal annual gifts	50,787	10,025	-	60,812	103,486
Commerce and industry gifts	665,816	92,240	-	758,056	1,046,010
Contribution from National Office	-	-	-	-	234,809
Foundations	55,509	342,543	-	398,052	301,825
Memorials	14,101	1,000	-	15,101	14,740
Clubs and organizations	39,148	17,183	-	56,331	18,036
Other gifts	-	-	-	-	2,026
Direct mail	1,151	-	-	1,151	4,058
Membership/direct response marketing	866,782	-	-	866,782	911,889
Donated vehicles	705	-	-	705	225
Total contributions	1,756,499	1,562,991	-	3,319,490	2,743,504
Special events - gross income	1,964,944	-	-	1,964,944	1,969,227
Less direct donor benefit costs	(505,634)	-	-	(505,634)	(429,750)
Bequests/planned giving	1,946,805	127,714	-	2,074,519	316,861
Total direct public support	5,162,614	1,690,705	-	6,853,319	4,599,842
Federated campaigns	52,798	-	-	52,798	48,862
United Way	92,533	-	-	92,533	151,779
Total indirect public support	145,331	-	-	145,331	200,641
Contributed goods and services	-	-	-	-	19,180
Total public support	5,307,945	1,690,705	-	6,998,650	4,819,663
Government grants	192,906	-	-	192,906	150,035
Sales and service fees	21,640	-	-	21,640	30,565
Investment return designated for operations	7,952	4,673	-	12,625	24,697
Rental income	4,400	-	-	4,400	4,800
Miscellaneous income	6,975	-	-	6,975	7,320
Total other revenue	233,873	4,673	-	238,546	217,417
Loss on uncollectible pledges	-	(212,739)	-	(212,739)	(125,226)
Net assets released from restrictions	786,089	(786,089)	-	-	-
Total revenues, gains and public support	6,327,907	696,550	-	7,024,457	4,911,854
Expenses					
Research	463,405	-	-	463,405	326,550
Public health education	2,961,206	-	-	2,961,206	2,955,254
Professional education and training	17,270	-	-	17,270	11,309
Patient and community services	1,258,983	-	-	1,258,983	1,052,234
Fundraising	662,958	-	-	662,958	646,298
Management and general	664,653	-	-	664,653	586,534
Total program and supporting services expenses	6,028,475	-	-	6,028,475	5,578,179
Change in net assets from operating activities	299,432	696,550	-	995,982	(666,325)
Non-operating Activities					
Contributions	-	-	-	-	58,436
Gain on sale of property and equipment	162,252	-	-	162,252	-
Net change in pension liability	(103,263)	-	-	(103,263)	(15,990)
Investment return over (under) amounts designated for operations	6,216	(2,589)	-	3,627	11,097
Unrealized (loss) gains on beneficial interest in perpetual trusts	-	-	(3,410)	(3,410)	27,979
Change in net assets from non-operating activities	65,205	(2,589)	(3,410)	59,206	81,522
Change in net assets	364,637	693,961	(3,410)	1,055,188	(584,803)
Net assets, beginning of year	580,048	1,146,368	398,815	2,125,231	2,710,034
Net assets, end of year	$ 944,685	$ 1,840,329	$ 395,405	$ 3,180,419	$ 2,125,231

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Statement of Functional Expenses

Year Ended December 31, 2011 with Summarized Financial Information for the Year Ended December 31, 2010

	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	2011	2010
Expenses										
Peer reviewed research awards	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,000
Other awards and grants	-	-	-	-	-	-	-	-	-	61,727
Salaries	-	952,490	-	457,928	1,410,418	201,488	219,805	421,293	1,831,711	1,944,353
Payroll taxes	-	75,053	-	36,084	111,137	15,877	17,320	33,197	144,334	163,561
Employee benefits	-	119,027	-	57,224	176,251	25,179	27,468	52,647	228,898	180,980
Technology fees	-	91,134	-	43,815	134,949	19,278	21,031	40,309	175,258	136,518
Data processing and accounting services	-	8,712	-	4,188	12,900	1,843	2,010	3,853	16,753	25,732
Professional fees and contract services	-	121,838	-	58,576	180,414	25,773	28,116	53,889	234,303	351,904
Professional services - contributed	-	-	-	-	-	-	-	-	-	19,180
Supplies	-	26,791	-	12,881	39,672	5,668	6,183	11,851	51,523	68,271
Printing, publications and artwork	-	45,892	-	22,064	67,956	9,708	10,590	20,298	88,254	79,445
Materials expenses	-	12,926	-	6,215	19,141	2,734	2,983	5,717	24,858	28,649
Membership/direct response marketing	-	202,520	-	-	202,520	86,794	-	86,794	289,314	282,370
Arthritis Today cost recovery	-	108,781	-	-	108,781	-	-	-	108,781	121,458
Postage, shipping and delivery	-	21,883	-	10,521	32,404	4,629	5,050	9,679	42,083	50,176
Telephone	-	27,917	-	13,421	41,338	5,905	6,442	12,347	53,685	44,771
Occupancy	-	124,206	-	59,715	183,921	26,274	28,663	54,937	238,858	289,998
Taxes and licenses	-	5,727	-	2,754	8,481	1,212	1,322	2,534	11,015	5,566
Insurance	-	22,259	-	10,701	32,960	4,708	5,136	9,844	42,804	30,360
Staff travel	-	69,937	-	33,624	103,561	14,794	16,139	30,933	134,494	127,391
Volunteer travel	-	11,705	-	5,627	17,332	2,476	2,701	5,177	22,509	20,404
Meetings and conferences	-	69,090	-	33,216	102,306	14,615	15,944	30,559	132,865	115,374
Equipment lease and maintenance	-	31,041	-	14,923	45,964	6,566	7,163	13,729	59,693	47,430
Membership dues and subscriptions	-	1,719	-	826	2,545	363	396	759	3,304	8,140
Specific assistance to individuals	-	-	-	54,958	54,958	-	-	-	54,958	48,570
Advertising	-	26,680	-	12,827	39,507	5,644	6,157	11,801	51,308	62,176
Miscellaneous	-	36,070	-	17,341	53,411	7,630	8,324	15,954	69,365	78,976
Depreciation	-	5,187	-	2,494	7,681	1,097	1,197	2,294	9,975	7,147
Total operating expenses	-	2,218,585	-	971,923	3,190,508	490,255	440,140	930,395	4,120,903	4,415,627
Share expense	463,405	742,621	17,270	287,060	1,510,356	172,703	224,513	397,216	1,907,572	1,162,552
Total expenses	$ 463,405	$ 2,961,206	$ 17,270	$ 1,258,983	$ 4,700,864	$ 662,958	$ 664,653	$ 1,327,611	$ 6,028,475	$ 5,578,179

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Statement of Cash Flows

For the Year Ended December 31, 2011 with Summarized Information for the Year Ended December 31, 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 1,055,188	$ (584,803)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	9,975	7,147
Gain on sale of property and equipment	(162,252)	-
Net unrealized loss (gain) on beneficial interest in perpetual trusts	3,410	(27,979)
Net realized and unrealized gains on investments	(3,627)	(6,986)
Change in asset and liabilities:		
Decrease (increase) in due from National Office	107,085	(175,872)
(Increase) decrease in contributions receivable	(2,121,561)	170,478
Decrease (increase) in prepaid expenses and other assets	24,005	(26,738)
Increase in beneficial interest in perpetual trusts	-	(58,436)
Increase (decrease) in accounts payable	84,143	(102,762)
(Decrease) increase in research awards and grants payable	(50,000)	50,000
Increase (decrease) in due to National Office	580,390	(162,619)
Increase (decrease) in accrued expenses and other liabilities	89,945	(52,136)
Net cash used in operating activities	(383,299)	(970,706)
Cash flows from investing activities		
Proceeds from sale of property and equipment	177,252	-
Purchases of property and equipment	(25,347)	-
Purchase of investments	(334,698)	(18,844)
Proceeds from sale of investments	275,583	520,478
Net cash provided by investing activities	92,790	501,634
Cash flows from financing activities		
Payments on note payable	(62,500)	-
Payments on capital lease obligations	(4,798)	(6,163)
Net cash used in financing activities	(67,298)	(6,163)
Net decrease in cash and cash equivalents	(357,807)	(475,235)
Cash and cash equivalents at beginning of year	1,342,009	1,817,244
Cash and cash equivalents at end of year	$ 984,202	$ 1,342,009

The accompanying notes are an integral part of this statement.

NOTE 1 – DESCRIPTION OF ORGANIZATION

Arthritis Foundation, Southeast Region, Inc. (the "Region") is a not-for-profit voluntary health agency by charter of the Arthritis Foundation, Inc. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Operating results in the statement of activities reflect all transactions increasing and decreasing net assets except those that the Region defines as non-operating. Non-operating includes contributions added to endowments, contributions supporting major capital purchases, contributions and other activity related to trust agreements and endowment income and gains and losses, net of amounts distributed to support operating in accordance with the board approved spending policy.

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, 2011 and 2010.

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, 2011 and 2010 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, 2011, tax year ended December 31, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2011, the Region's uninsured cash balance was $96,210. 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 average historical value (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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2010 from which the summarized financial information was derived.

Reclassifications - Certain reclassifications have been made to the 2010 balances to conform to the 2011 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, 2011 and 2010, share expense was $1,907,572 and $1,162,552, respectively. The Region is also allocated a portion of certain contributions received by the National Office, which for the years ended December 31, 2011 and 2010 was $1,063,636, and $1,111,333, 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 $596,874 and $533,875 in 2011 and 2010, respectively.

NOTE 4 – INVESTMENTS

Investments at December 31, 2011 and 2010 were as follows:

	2011	2010
Marketable securities:		
Domestic equity mutual funds	$ 43,075	$ 43,186
Common stock	103,451	1,571
Fixed income mutual funds	80,145	167,893
International equity mutual funds	10,808	13,220
Total marketable securities	237,479	225,870
Money market fund	318,913	-
Certificates of deposit	-	267,780
Total investments	$ 556,392	$ 493,650

NOTE 4 – INVESTMENTS - Continued

The following summarizes the Region's total investment return, net of investment management fees of $2,312 and $2,131 for the years ending December 31, 2011 and 2010 and the classification in the statement of activities.

	December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	$ 7,952	$ 4,673	$ -	$ 12,625
Net realized gains	(105)	6,569	5,986	12,450
Net unrealized gains (losses)	6,321	(9,158)	(5,986)	(8,823)
	14,168	2,084	-	16,252
Less investment return designated for operations	7,952	4,673	-	12,625
Investment return over (under) amount designated for operations	$ 6,216	$ (2,589)	$ -	$ 3,627

	December 31, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	$ 11,708	$ 17,100	$ -	$ 28,808
Net realized gains	1,796	-	2,386	4,182
Net unrealized (losses) gains	(5,907)	-	8,711	2,804
	7,597	17,100	11,097	35,794
Less investment return designated for operations	7,597	17,100	-	24,697
Investment return over amount designated for operations	$ -	$ -	$ 11,097	$ 11,097

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.

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, 2011 and 2010:

	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
Fixed income mutual funds				
Financial services industry	-	-	-	-
Media	-	-	-	-
Other	80,145	-	-	80,145
Total marketable securities	237,479	-	-	237,479
Beneficial interest in perpetual trusts	-	-	284,308	284,308
Total	$ 237,479	$ -	$ 284,308	$ 521,787

	December 31, 2010			
	Level I	Level II	Level III	Total
Common stocks				
Oil and gas industry	$ 1,571	$ -	$ -	$ 1,571
International equity mutual funds	13,220	-	-	13,220
Domestic equity mutual funds	43,186	-	-	43,186
Fixed income mutual funds				
Financial services industry	24,431	-	-	24,431
Media	16,294	-	-	16,294
Other	127,168	-	-	127,168
Total marketable securities	225,870	-	-	225,870
Beneficial interest in perpetual trusts	-	-	287,718	287,718
Total	$ 225,870	$ -	$ 287,718	$ 513,588

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, 2011 and 2010.

	2011	2010
Beginning balance	$ 287,718	$ 201,303
Additions	-	58,436
Net unrealized (loss) gain	(3,410)	27,979
Ending balance	$ 284,308	$ 287,718

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. 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

NOTE 6 – ENDOWMENTS - Continued

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, 2011 and 2010.

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.).

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, 2011 and 2010:

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

	December 31, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 40,704	$ 111,097	$ 151,801

NOTE 6 – ENDOWMENTS - Continued

Change in endowment net assets:

	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	$ 25,326	$ 15,151	$ 111,097	$ 151,574

	December 31, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ -	$ 38,715	$ 100,000	$ 138,715
Investment return				
Investment income	-	1,989	-	1,989
Net appreciation	-	-	11,097	11,097
Total investment return	-	1,989	11,097	13,086
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of the year	$ -	$ 40,704	$ 111,097	$ 151,801

NOTE 7 – CONTRIBUTIONS RECEIVABLE

The Region had the following contributions receivable at December 31, 2011 and 2010:

	2011	2010
Amount due in:		
Less than one year	$ 2,023,941	$ 343,358
One to five years	658,115	130,478
Gross contributions receivable	2,682,056	473,836
Allowance for doubtful accounts	(148,190)	(69,187)
Unamortized present value discount	(15,937)	(8,281)
Net contributions receivable	$ 2,517,929	$ 396,368

Contributions receivable are net of unamortized present value discount calculated at the date of donation using rates between two and four percent.

NOTE 8 – BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

At December 31, 2011 and 2010, the Region had $284,308 and $287,718, respectively, in beneficial interest in perpetual trusts. These trust assets are reported on the statement of financial position and are valued at fair-value.

NOTE 9 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2011 and 2010:

	2011	2010
Land	$ -	$ 15,000
Buildings (useful life 30 - 40 years)	-	172,624
Building improvements (useful life 10 - 20 years)	-	19,636
Furniture and other equipment (useful life 3-5 years)	147,591	275,313
	147,591	482,573
Less: accumulated depreciation	(119,183)	(454,537)
Net property and equipment	$ 28,408	$ 28,036

Depreciation expense was $9,975 and $7,147 for the years ended December 31, 2011 and 2010, respectively.

NOTE 10 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at December 31, 2011 and 2010:

	2011	2010
Pension	$ 178,778	$ 75,515
Vacation	39,581	36,991
Other	9,622	25,530
Total accrued expenses and other liabilities	$ 227,981	$ 138,036

NOTE 11 - DEBT OBLIGATIONS

The Region has a demand note payable in the amount of $44,850 at December 31, 2011, secured by rights to certain gifts and pledges.

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, 2011 and 2010 were $6,489 and $11,365, respectively, and are included in property and equipment on the statement of financial position.

Future minimum lease payments under capital leases are as follows:

For the years ending December 31,	
2012	$ 8,317
2013	3,487
Total future minimum lease payments	11,804
Less amounts representing interest	(1,690)
Present value of net minimum lease payments	$ 10,114

The Region has a line of credit with a local bank in the amount of $500,000. 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, 2011 was 3.25 percent. At December 31, 2011, the line of credit has not been drawn upon.

NOTE 12 – JOINT COSTS

In 2011 and 2010, the Region incurred joint costs of $289,314 and $282,370 for informational materials and activities that included fundraising appeals, such as the Region's direct mail. Joint costs for the years ended December 31, 2011 and 2010 were allocated as follows:

	2011	2010
Public health education	$ 202,520	$ 197,659
Fundraising	86,794	84,711
	$ 289,314	$ 282,370

NOTE 13 – NET ASSETS

Temporarily restricted net assets at December 31, 2011 and 2010 were available for the following purposes:

	2011	2010
Specific programs conducted by the Region	$ 1,135,895	$ 712,400
Scholarships, training and projects	57,749	25,769
Research	571,889	245,087
Use in future periods	74,796	163,112
	$ 1,840,329	$ 1,146,368

Permanently restricted net assets consisted of the following at December 31, 2011 and 2010 and represent endowed gifts to be held in perpetuity with the investment income to be used for:

	2011	2010
Research and specific projects	$ 167,446	$ 169,533
Operations	227,959	229,282
	$ 395,405	$ 398,815

NOTE 13 – NET ASSETS - Continued

Temporarily restricted net assets released from donor and time restrictions consisted of the following in the years ended December 31, 2011 and 2010:

	2011	2010
Satisfaction of donor imposed restrictions:		
Specific programs conducted by the Region	$ 536,226	$ 297,360
Scholarships, training and projects	105,459	-
Research	135,000	71,114
Total satisfaction of donor imposed restrictions	776,685	368,474
Time releases	9,404	156,871
Total temporarily restricted net assets release from restriction	$ 786,089	$ 525,345

NOTE 14 – OPERATING LEASES

Rental expense for Region office space was $238,858 and $289,998 for the years ended December 31, 2011 and 2010, 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, 2011 are as follows:

For the years ending December 31,	
2012	$ 294,735
2013	132,471
2014	90,290
2015	84,487
2016	75,085
Thereafter	99,612
Total future minimum lease payments	$ 776,680

NOTE 15 – EMPLOYEE BENEFIT PLAN

Defined Benefit Plan

The former Arkansas Chapter has a defined benefit pension plan (the "ARK Plan") which management of the Region elected to terminate during the year ended December 31, 2010. As a result, the Region has reported, at December 31, 2011, the estimated cost to terminate the ARK Plan based on eligible participants. The estimated cost to terminate at December 31, 2011 is $170,140. Management believes the termination cost of $170,140 represents the remaining benefits to be paid by the ARK Plan; however, actual results could differ from these estimates. All of the ARK Plan assets which totaled $155,394 for the year ended December 31, 2011 are invested in an insurance contract which guarantees principal and earns a fixed rate of return which is reset annually. The funded status of the ARK Plan at December 31, 2011 was ($14,746) and it 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, 2011 and 2010.

	2011	2010
Equity	69%	42%
Fixed income	18%	10%
Other	13%	48%
	100%	100%

NOTE 15 – EMPLOYEE BENEFIT PLAN - Continued

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.

	2011	2010
Fair value of plan assets at year end	$ 127,457	$ 210,451
Projected benefit obligation at year end	(291,489)	(283,360)
Funded status	$ (164,032)	$ (72,909)
Amounts recognized on the statement of financial position consist of:		
Accrued benefit cost	$ (164,032)	$ (72,909)

	2011	2010
Accumulated benefit obligation	$ 291,489	$ 283,360
Employer contributions	6,694	-
Participant contributions	-	-
Benefits paid	91,082	7,124

Weighted average assumptions for the GA Plan as of December 31, 2011 and 2010:

	2011	2010
Discount rate	5%	6%
Expected return on plan assets	7%	7%
Rate of compensation increase	6%	6%
Benefit cost	$ 12,227	$ 6,143

NOTE 15 – EMPLOYEE BENEFIT PLAN - Continued

The components of net periodic benefit for the GA Plan at December 31, 2011 and 2010 were:

	2011	2010
Service cost	$ 11,251	$ 4,435
Interest cost	15,479	13,650
Actual return on plan assets	(1,394)	(19,701)
Amortization of initial unrecognized net obligation of (net assets)	(13,109)	7,759
Net periodic pension cost	$ 12,227	$ 6,143

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:

Year ended December 31,	
2012	$ -
2013	-
2014	-
2015	-
2016	-
Five years thereafter	165,000
Total estimated benefit payments for the next ten years	$ 165,000

The Expected Long-Term Rate of Return on Plan Assets assumption of seven 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 6.16 percent - 8.03percent. A rate of seven percent which is within the best estimate range was selected.

NOTE 15 – EMPLOYEE BENEFIT PLAN - Continued

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

	January 1, 2011	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	Effect of Settlement	December 31, 2011
Net gain (loss)	$ 32,840	$ (428)	$ 86,018	$ (24,870)	$ 93,560

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

During 2011, the Region recorded a $103,263 increase 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, 2011 and 2010 were $32,733 and $11,565, respectively.

NOTE 16 – SUBSEQUENT EVENTS

The Region has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2011 financial statements through March 23, 2012, the date that the financial statements were available to be issued.