Arthritis Foundation, Southeast Region, Inc.

Financial Statements as of and for the
Year ended December 31, 2010

and

Independent Auditor's 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.**, (the "Region") (a nonprofit organization) as of December 31, 2010, 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.

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, 2010, 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 18, 2011

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.
Statement of Financial Position
December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Assets</u>				
Cash and cash equivalents	$ 711,150	$ 619,762	$ 11,097	$ 1,342,009
Investments	54,770	338,880	100,000	493,650
Due from National Office	423,336	39,500	-	462,836
Contributions receivable, net	248,142	148,226	-	396,368
Prepaid expenses and other assets	46,670	-	-	46,670
Beneficial interests in perpetual trusts	-	-	287,718	287,718
Property and equipment, net	28,036	-	-	28,036
Total assets	$ 1,512,104	$ 1,146,368	$ 398,815	$ 3,057,287
<u>Liabilities and Net Assets</u>				
Accounts payable	$ 1,703	$ -	$ -	$ 1,703
Accrued expenses and other liabilities	138,036	-	-	138,036
Research awards and grants payable	50,000	-	-	50,000
Due to National Office	620,055	-	-	620,055
Debt obligations	122,262	-	-	122,262
Total liabilities	932,056	-	-	932,056
Net assets	580,048	1,146,368	398,815	2,125,231
Total liabilities and net assets	$ 1,512,104	$ 1,146,368	$ 398,815	$ 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, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities				
Personal major gifts	$ 72,000	$ 34,400	$ -	$ 106,400
Personal annual gifts	66,411	37,075	-	103,486
Commerce and industry gifts	872,028	173,982	-	1,046,010
Contribution from National Office	234,809	-	-	234,809
Foundations	97,862	203,963	-	301,825
Memorials	14,615	125	-	14,740
Clubs and organizations	18,036	-	-	18,036
Other gifts	2,026	-	-	2,026
Direct mail	4,058	-	-	4,058
Membership/direct response marketing	911,889	-	-	911,889
Donated vehicles	225	-	-	225
Total contributions	2,293,959	449,545	-	2,743,504
Special events - gross income	1,969,227	-	-	1,969,227
Less direct donor benefit costs	(429,750)	-	-	(429,750)
Bequests/planned giving	316,861	-	-	316,861
Total direct public support	4,150,297	449,545	-	4,599,842
Federated campaigns	48,862	-	-	48,862
United Way	151,779	-	-	151,779
Total indirect public support	200,641	-	-	200,641
Contributed goods and services	19,180	-	-	19,180
Total public support	4,370,118	449,545	-	4,819,663
Government grants	150,035	-	-	150,035
Sales and service fees	30,565	-	-	30,565
Investment return designated for operations	7,597	17,100	-	24,697
Rental Income	4,800	-	-	4,800
Miscellaneous income	7,320	-	-	7,320
Total other revenue	200,317	17,100	-	217,417
Net assets released from restrictions	525,345	(525,345)	-	-
Total revenues, gains and public support	5,095,780	(58,700)	-	5,037,080
Expenses				
Research	326,650	-	-	326,650
Public health education	3,031,889	-	-	3,031,889
Professional education and training	11,309	-	-	11,309
Patient and community services	1,083,598	-	-	1,083,598
Fundraising	663,001	-	-	663,001
Management and general	602,948	-	-	602,948
Total program and supporting services expenses	5,719,395	-	-	5,719,395
Change in net assets from operating activities	(623,615)	(58,700)	-	(682,315)
Non-operating Activities				
Contributions	-	-	58,436	58,436
Investment return over amounts designated for operations	-	-	11,097	11,097
Unrealized gains on beneficial interest in perpetual trusts	-	-	27,979	27,979
Change in net assets from non-operating activities	-	-	97,512	97,512
Change in net assets	(623,615)	(58,700)	97,512	(584,803)
Net assets, beginning of year	1,203,663	1,205,068	301,303	2,710,034
Net assets, end of year	$ 580,048	$ 1,146,368	$ 398,815	$ 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, 2010

	PROGRAM SERVICES					SUPPORTING SERVICES			
	Research	Public Health Education	Professional Education and Training	Patient and Community Services	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Expenses									
Peer reviewed research awards	$ 15,000	$ -	$ -	$ -	$ 15,000	$ -	$ -	$ -	$ 15,000
Other awards and grants	61,727	-	-	-	61,727	-	-	-	61,727
Salaries	1,555	1,058,311	-	439,813	1,499,679	224,573	220,101	444,674	1,944,353
Payroll taxes	131	89,026	-	36,997	126,154	18,891	18,516	37,407	163,561
Employee benefits	158	107,210	-	44,554	151,922	22,751	22,297	45,048	196,970
Technology fees	109	74,307	-	30,880	105,296	15,768	15,454	31,222	136,518
Data processing and accounting services	21	14,006	-	5,821	19,848	2,972	2,912	5,884	25,732
Professional fees and contract services	282	191,541	-	79,601	271,424	40,645	39,835	80,480	351,904
Professional services - contributed	15	10,440	-	4,339	14,794	2,215	2,171	4,386	19,180
Supplies	55	37,160	-	15,443	52,658	7,885	7,728	15,613	68,271
Printing, publications, and artwork	64	43,242	-	17,970	61,276	9,176	8,993	18,169	79,445
Materials expenses	23	15,594	-	6,480	22,097	3,309	3,243	6,552	28,649
Membership/direct response marketing	-	197,659	-	-	197,659	84,711	-	84,711	282,370
Arthritis Today cost recovery	-	121,458	-	-	121,458	-	-	-	121,458
Postage, shipping, and delivery	40	27,311	-	11,350	38,701	5,795	5,680	11,475	50,176
Telephone	36	24,369	-	10,127	34,532	5,171	5,068	10,239	44,771
Occupancy	232	157,846	-	65,598	223,676	33,495	32,827	66,322	289,998
Taxes and licenses	4	3,030	-	1,259	4,293	643	630	1,273	5,566
Insurance	24	16,525	-	6,867	23,416	3,507	3,437	6,944	30,360
Staff travel	102	69,339	-	28,816	98,257	14,714	14,420	29,134	127,391
Volunteer travel	16	11,106	-	4,615	15,737	2,357	2,310	4,667	20,404
Meetings and conferences	92	62,798	-	26,098	88,988	13,326	13,060	26,386	115,374
Equipment lease and maintenance	38	25,816	-	10,729	36,583	5,478	5,369	10,847	47,430
Membership dues and subscriptions	7	4,431	-	1,841	6,279	940	921	1,861	8,140
Specific assistance to individuals	150	34,212	-	14,208	48,570	-	-	-	48,570
Advertising	50	33,842	-	14,064	47,956	7,181	7,039	14,220	62,176
Miscellaneous	63	42,987	-	17,864	60,914	9,122	8,940	18,062	78,976
Bad debt expense	100	68,161	-	28,326	96,587	14,464	14,175	28,639	125,226
Depreciation	6	3,890	-	1,617	5,513	825	809	1,634	7,147
Total operating expenses	80,100	2,545,617	-	925,277	3,550,994	549,914	455,935	1,005,849	4,556,843
Share expense	246,550	486,272	11,309	158,321	902,452	113,087	147,013	260,100	1,162,552
Total expenses	$ 326,650	$ 3,031,889	$ 11,309	$ 1,083,598	$ 4,453,446	$ 663,001	$ 602,948	$ 1,265,949	$ 5,719,395

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION, SOUTHEAST REGION, INC.

Statement of Cash Flows

For the Years Ended December 31, 2010

Cash flows from operating activities	
Change in net assets	$ (584,803)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	7,147
Net unrealized gain on beneficial interest in perpetual trusts	(27,979)
Net realized and unrealized gains on investments	(6,986)
Change in asset and liabilities:	
Increase in due from National Office	(175,872)
Decrease in contributions receivable	170,478
Increase in prepaid expenses and other assets	(26,738)
Increase in beneficial interest in perpetual trusts	(58,436)
Decrease in accounts payable	(102,762)
Increase in research awards and grants payable	50,000
Decrease in due to National Office	(162,619)
Decrease in accrued expenses and other liabilities	(52,136)
Net cash used in operating activities	(970,706)
Cash flows from investing activities	
Purchase of investments	(18,844)
Proceeds from sale of investments	520,478
Net cash provided by investing activities	501,634
Cash flows from financing activities	
Payments on capital lease obligations	(6,163)
Net decrease in cash and cash equivalents	(475,235)
Cash and cash equivalents at beginning of year	1,817,244
Cash and cash equivalents at end of year	$ 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.

The Region was formed on January 1, 2010 and the Arthritis Foundation Chapters of Alabama, Arkansas, Georgia, Louisiana, Mississippi and Tennessee merged into the Region. All six entities shared the common mission of improving lives through leadership in the prevention, control and cure of arthritis and arthritis-related diseases. Through their merger, the entities seek to achieve economies of scale and other synergies through integrating their services. The following is a summary of the assets and liabilities which were transferred to the Region as under the terms of the merger agreement.

Assets	Alabama Chapter	Arkansas Chapter	Georgia Chapter	Louisiana Chapter	Mississippi Chapter	Tennessee Chapter	Total
Cash and cash equivalents	$ 63,533	$ 57,667	$ 621,462	$ -	$ 140,668	$ 933,915	$ 1,817,245
Investments	385,381	277,878	273,432	-	51,610	-	988,301
Due from National Office	60,380	12,996	79,138	-	52,710	81,738	286,962
Accounts receivable	-	306	-	-	-	39,055	39,361
Contributions receivable, net	51,047	14,558	191,132	-	-	270,747	527,484
Prepaid expenses and other assets	2,482	8,428	8,947	-	-	7,837	27,694
Beneficial interests in perpetual trusts	-	-	-	-	207,820	-	207,820
Property and equipment, net	-	20,819	14,365	-	-	-	35,184
Total assets	562,823	392,652	1,188,476	-	452,808	1,333,292	3,930,051
Liabilities							
Accounts payable	$ 21,038	$ 36,333	$ 53,389	$ -	$ -	$ 94,245	$ 205,005
Accrued expenses and other liabilities	8,288	-	81,665	-	920	12,911	103,784
Due to National Office	140,583	31,265	162,424	110,911	78,942	258,677	782,802
Debt obligations	107,350	8,293	12,783	-	-	-	128,426
Total liabilities	277,259	75,891	310,261	110,911	79,862	365,833	1,220,017
Net Assets							
Unrestricted	78,569	133,141	536,354	(110,911)	38,429	528,081	1,203,663
Temporarily restricted	206,995	83,620	341,861	-	133,214	439,378	1,205,068
Permanently restricted	-	100,000	-	-	201,303	-	301,303
Total net Assets	$ 285,564	$ 316,761	$ 878,215	$ (110,911)	$ 372,946	$ 967,459	$ 2,710,034

NOTE 1- DESCRIPTION OF ORGANIZATION - Continued

Under the terms of the Region's formation agreement, certain Chapter liabilities due to the Arthritis Foundation Inc., National Office totaling $234,809 were forgiven in the current year. These amounts are included as contributions from National Office in the statement of activities.

For the year ended December 31, 2009, all Chapters received unqualified audit opinions from Metcalf Davis.

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 results of operations of the Region as of and for the year ended December 30, 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, 2010.

Generally, the Internal Revenue Service ("IRS") may examine a tax return for three years from the date it is filed. At December 31, 2010, tax years ended December 31, 2009, 2008 and 2007 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. Accounts receivable, other than split-interest agreements, and accounts payable are stated at cost, which approximates fair value, due to their short term maturity.

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, 2010 the Region's uninsured cash balance was $502,028. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Net unrealized gains (losses) in beneficial interests in perpetual trusts are reported as permanently restricted net assets.

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's policy is to capitalize property and equipment acquisitions in excess of $1,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Generally Accepted Accounting Principles ("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 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 year ended December 31, 2010, share expense was $1,136,581. The Region is also allocated a portion of certain contributions received by the National Office, which for the years ended December 31, 2010 was $1,111,333. 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 approximately $533,875 in 2010.

NOTE 4 - INVESTMENTS

Investments at December 31, 2010 were as follows:

Marketable securities:	
Domestic equity mutual funds	$ 43,186
Fixed income mutual funds	167,893
International equity mutual funds	13,220
Common stock	1,571
Total marketable securities	225,870
Certificates of deposit	267,780
Total investments	$ 493,650

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

	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 gains (losses)	(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 cash equivalents, 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 beneficial interest in perpetual trusts which are valued using the income approach.

NOTE 5 - FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Region's investments and interest in perpetual trusts by the above hierarchy levels as of 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

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 year ended December 31, 2010.

Beginning balance	$ 201,303
Additions	58,436
Net unrealized gain	27,979
Ending balance	$ 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

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 noted for the year ended December 31, 2010.

The primary long-term financial objective for the Region's endowments is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. Performance of the overall endowment against this objective is measured over rolling periods of one, three and five years. The endowments shall be managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that funds the Region's existing spending policy and allows sufficient reinvestment to grow the endowment principal at a rate that exceeds inflation (as measured by the Consumer Price index). Over the short term, the return for each element of the endowment portfolio should match or exceed each of the returns for the broader capital markets in which assets are invested.

NOTE 6 - ENDOWMENTS - Continued

Region policy requires that the endowment assets will 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 will be 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 will be calculated at a specific fixed percentage of the base. Such a policy will allow 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, this policy will minimize the probability of invading the principal over the long term. Spending in a given year will reduce the unit value of each endowment element by the payout percentage. In no case, will funds designated as True Endowment be 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 will be 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 will be diversified both by asset class (equity, fixed income and cash) and within asset class (large capitalization stocks, small capitalization stocks, U.S. Treasury bonds, corporate bonds, etc).

The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total endowment and to reduce the overall risk and volatility of the entire portfolio. The total endowment will be 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, 2010:

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

NOTE 6 - ENDOWMENTS - Continued

Change in endowment net assets:

	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, 2010:

Amount due in:	
Less than one year	$ 343,358
One to five years	130,478
Gross contributions receivable	473,836
Allowance for doubtful accounts	(69,187)
Unamortized present value discount	(8,281)
Net contributions receivable	$ 396,368

Contributions receivable are net of unamortized present value discount calculated at the date of donation using rates commensurate with the risk involved.

NOTE 8 - BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

At December 31, 2010, the Region had $287,718 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, 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)	275,313
Accumulated depreciation	(454,537)
Net property and equipment	$ 28,036

Depreciation expense was $7,147 for the year ended December 31, 2010.

NOTE 10 - ACCRUED EXPENSES AND OTHER LIABILITIES

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

Pension	$ 75,515
Vacation	36,991
Other	25,530
Total accrued expenses and other liabilities	$ 138,036

NOTE 11 - DEBT OBLIGATIONS

The Region has a demand note payable in the amount of $107,350 at December 31, 2010, 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, 2010 were $11,365 and are included in property and equipment on the statement of financial position.

Future minimum lease payments under capital leases are as follows:

2011	$ 7,857
2012	7,569
2013	3,218
Total future minimum lease payments	18,644
Less amounts representing interest	(3,732)
Present value of net minimum lease payments	$ 14,912

NOTE 12 - JOINT COSTS

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

Public health education	$ 197,659
Fundraising	84,711
	$ 282,370

NOTE 13 - NET ASSETS

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

Specific programs conducted by the Region	$ 712,400
Scholarships, training and projects	25,769
Research	245,087
Use in future periods	163,112
	$ 1,146,368

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

Research and specific projects	$ 169,533
Operations	229,282
	$ 398,815

Temporarily restricted net assets released from restrictions consisted of the following in the year ended December 31, 2010:

Specific programs conducted by the Region	$ 297,360
Research	71,114
Time releases	156,871
	$ 525,345

NOTE 14 - OPERATING LEASES

Rental expense for Region office space was $289,998 for the year ended December 31, 2010. Lease agreements having an original term of more than one year expire on various dates through 2014.

Future minimum annual lease payments as of December 31, 2010 are as follows:

For the years ending December 31,	
2011	$ 204,388
2012	179,567
2013	41,797
Total future minimum lease payments	$ 425,752

NOTE 15 - EMPLOYEE BENEFIT PLAN

Defined Benefit 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 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, 2010, the estimated cost to terminate the ARK Plan based on eligible participants. The estimated cost to terminate at December 31, 2010 is $158,000. Management believes the termination process will be completed by December 31, 2011. Management believes the termination cost of $158,000 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, 2010 are invested in an insurance contract which guarantees principal and earns a fixed rate of return which is reset annually. The following table illustrates the percentage of fair value of total GA Plan assets for each major category of plan assets at fiscal year-end 2010.

Equity	42%
Debt Securities	10%
Other	48%
	100%

NOTE 15 - EMPLOYEE BENEFIT PLAN - Continued

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

	ARK Plan	GA Plan
Fair value of plan assets at year end	$ 155,394	$ 210,451
Benefit obligation at year end	(158,000)	(283,360)
Funded Status	$ (2,606)	$ (72,909)
Amounts recognized on the statement of financial position consist of:		
Accrued benefit cost	$ (2,606)	$ (72,909)
Weighted average assumptions as of year end:		
Discount rate	6%	6%
Expected return on plan assets	7%	7%
Rate of compensation increase	4%	6%
Benefit cost	$ 8,498	$ 6,143

The components of net periodic benefit at fiscal year-end 2010 are:

	ARK Plan	GA Plan
Service cost	$ 4,980	$ 4,435
Interest cost	2,192	13,650
Actual return on plan assets	(2,673)	(19,701)
Amortization of initial unrecognized net obligation of (net assets)	3,999	7,759
Net periodic pension cost	$ 8,498	$ 6,143

NOTE 15 - EMPLOYEE BENEFIT PLAN - Continued

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,	
2011	$ 48,000
2012	-
2013	-
2014	-
2015	-
Five years thereafter	28,000
Total estimated benefit payments for the next ten years	$ 76,000

The Expected Long-Term Rate of Return on Plan Assets assumption of 7.00% 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% was selected and added to the real rate of return range to arrive at a best estimate range of 6.01% - 7.79%. A rate of 7.00% 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:

	January 1, 2010	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	December 31, 2010
ARK Plan transition obligation or asset	$ (5,317)	$ -	$ -	$ (5,317)
ARK Plan net (gain) loss	$ (71,728)	$ -	$ -	$ (71,728)
GA Plan net (gain) loss	$ 31,491	$ (68)	$ 1,417	$ 32,840

No plan assets are expected to be returned to the Region during the 2011 fiscal year. During 2010, the GA Plan paid $7,124 in benefits.

During 2010, the Region recorded a $15,990 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 this plan.

NOTE 16 - SUBSEQUENT EVENTS

The Region has evaluated subsequent events for potential recognition and /or disclosure in the December 31, 2010 financial statements through March 18, 2011, the date that the financial statements were available to be issued.