Financial Statements and Independent Auditors' Report

Arthritis Foundation
Chartered Entities and the National Office

Year ended December 31, 2014
(with Summarized Financial Information for the
Year ended December 31, 2013)

Metcalf Davis
CPAs | ADVISORS

Metcalf Davis
CPAs | ADVISORS

Tower Place, Suite 2600
3340 Peachtree Road, NE
Atlanta, Georgia 30326
404.264.1700 MAIN
404.264.9968 FAX

Independent Auditors' Report

Board of Trustees
Arthritis Foundation

We have audited the accompanying combined financial statements of the Arthritis Foundation, Chartered Entities and the National Office, (a not-for-profit organization), which comprise the combined statement of financial position as of December 31, 2014, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of certain Chartered Entities, whose statements reflect approximately 33 percent of total assets of $63,662,885 as of December 31, 2014, and approximately 35 percent of total support and revenues of $28,293,281, for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those Chartered Entities, is based solely on the report of the other auditors. 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Arthritis Foundation, Chartered Entities and the National Office, as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Arthritis Foundation, Chartered Entities and the National Office's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 7, 2014. We did not audit the financial statements of certain Chartered Entities, whose statements reflect approximately 32 percent of total assets of $60,029,573, as of December 31, 2013, and approximately 33 percent of total support and revenues of $36,275,454, for the year then ended. Those statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those Chartered Entities, is based solely on the reports of the other auditors. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Metcalf Davis

Atlanta, Georgia
May 11, 2015

ARTHRITIS FOUNDATION,
CHARTERED ENTITIES AND THE NATIONAL OFFICE

Statement of Financial Position

December 31, 2014 with Summarized Financial Information as of December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2014	Totals 2013
Assets					
Cash and cash equivalents	$ 2,492,515	$ 11,174,387	$ 1,088,013	$ 14,754,915	$ 9,472,191
Investments	29,075,749	31,998,963	36,359,039	97,433,751	100,672,209
Accounts and notes receivable, net	1,897,173	82,494	-	1,979,667	2,007,868
Contributions receivable, net	12,202,654	5,643,503	386,040	18,232,197	15,036,083
Funds held in trust by others	408,235	7,502,933	3,312,372	11,223,540	11,729,094
Prepaid expenses and other assets	1,814,842	-	-	1,814,842	2,440,046
Inventory	405,745	-	-	405,745	469,099
Beneficial interests in perpetual trusts	-	-	35,534,105	35,534,105	35,069,419
Property and equipment, net	8,705,385	-	-	8,705,385	8,889,613
Total assets	$ 57,002,298	$ 56,402,280	$ 76,679,569	$ 190,084,147	$ 185,785,622
Liabilities and Net Assets					
Accounts payable	$ 2,469,936	$ -	$ -	$ 2,469,936	$ 4,024,111
Accrued expenses and other liabilities	7,401,095	-	-	7,401,095	7,123,582
Research awards and grants payable	5,314,935	-	-	5,314,935	4,827,095
Liabilities under split interest agreements	-	9,372,216	-	9,372,216	9,880,769
Debt obligations	2,447,186	-	-	2,447,186	2,262,497
Total liabilities	17,633,152	9,372,216	-	27,005,368	28,118,054
Net assets committed for future research grants	2,800,000	-	-	2,800,000	2,060,000
Other net assets	36,569,146	47,030,064	76,679,569	160,278,779	155,607,568
Total net assets	39,369,146	47,030,064	76,679,569	163,078,779	157,667,568
Total liabilities and net assets	$ 57,002,298	$ 56,402,280	$ 76,679,569	$ 190,084,147	$ 185,785,622

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION,
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Activities
Year Ended December 31, 2014 with Summarized Financial Information for the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2014	Totals 2013
Revenues, Gains and Public Support					
Direct response marketing contributions	$ 12,091,168	$ -	$ -	$ 12,091,168	$ 12,915,886
Corporate contributions	3,326,315	6,376,310	-	9,702,625	8,852,437
Personal contributions	2,235,352	1,080,362	690,333	4,006,047	4,149,097
Foundations	676,808	2,406,982	-	3,083,790	2,524,189
Memorials	242,681	109,991	-	352,672	261,491
Other gifts	115,702	155,934	-	271,636	501,317
Total contributions	18,688,026	10,129,579	690,333	29,507,938	29,204,417
Special events - gross income	29,104,911	45,000	-	29,149,911	28,595,765
Less direct donor benefit costs	(6,399,928)	-	-	(6,399,928)	(7,042,591)
Bequests/planned giving	22,229,943	3,265,640	1,454,107	26,949,690	24,461,991
Total direct public support	63,622,952	13,440,219	2,144,440	79,207,611	75,219,582
Federated campaigns	828,246	4,381	-	832,627	749,260
United Way	696,553	-	-	696,553	913,513
Total indirect public support	1,524,799	4,381	-	1,529,180	1,662,773
Contributed goods and services	610,077	-	-	610,077	4,871,480
Total public support	65,757,828	13,444,600	2,144,440	81,346,868	81,753,835
Government grants	1,906,729	52,891	-	1,959,620	1,687,657
Investment return for operations	3,279,028	1,996,112	-	5,275,140	5,186,952
Conferences, sales, other revenue, gains and losses	7,436,963	(235,337)	-	7,201,626	9,437,003
Total other revenue, gains and losses	12,622,720	1,813,666	-	14,436,386	16,311,612
Change in interpretation of agreement	361,187	-	(361,187)	-	-
Net assets released from restrictions	16,206,657	(16,206,657)	-	-	-
Total revenues, gains and public support	94,948,392	(948,391)	1,783,253	95,783,254	98,065,447
Expenses					
Research	10,039,087	-	-	10,039,087	9,429,117
Public health education	38,489,975	-	-	38,489,975	41,482,698
Professional education and training	2,076,585	-	-	2,076,585	2,275,419
Patient and community services	19,473,411	-	-	19,473,411	24,744,744
Fundraising	11,174,867	-	-	11,174,867	12,031,057
Management and general	10,178,552	-	-	10,178,552	10,449,949
Total expenses	91,432,477	-	-	91,432,477	100,412,984
Change in net assets from operating activities	3,515,915	(948,391)	1,783,253	4,350,777	(2,347,537)
Non-operating Income					
Return of donor contributions	-	-	-	-	(193,650)
Non-operating investment return	816,330	834,557	-	1,650,887	10,454,659
Unrealized gains on beneficial interests in perpetual trusts	-	-	(169,742)	(169,742)	2,237,216
Change in valuation in split interest agreements	-	(209,214)	(17,789)	(227,003)	(273,385)
Net change in pension liabilities	(193,708)	-	-	(193,708)	(258,102)
Change in net assets from non-operating activities	622,622	625,343	(187,531)	1,060,434	11,966,738
Change in net assets	4,138,537	(323,048)	1,595,722	5,411,211	9,619,201
Net assets, beginning of year	35,230,609	47,353,112	75,083,847	157,667,568	148,048,367
Net assets, end of year	$ 39,369,146	$ 47,030,064	$ 76,679,569	$ 163,078,779	$ 157,667,568

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION,
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Functional Expenses
Year Ended December 31, 2014 with Summarized Financial Information for the Year Ended December 31, 2013

	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	2014	2013
Research grants and awards	$ 7,520,054	$ 444,210	$ 109,649	$ 193,095	$ 8,267,008	$ -	$ -	$ -	$ 8,267,008	$ 6,662,122
Salaries	1,102,165	14,577,313	966,898	8,041,997	24,688,373	4,476,229	5,296,834	9,773,063	34,461,436	36,727,657
Payroll taxes	81,702	1,138,974	78,144	635,954	1,934,774	352,711	400,472	753,183	2,687,957	2,844,727
Employee benefits	112,171	1,983,907	149,138	1,209,342	3,454,558	601,833	608,197	1,210,030	4,664,588	5,468,274
Advertising commissions	-	185,807	-	181,256	367,063	-	-	-	367,063	503,633
Professional fees and contract services	270,239	3,762,050	137,894	1,577,624	5,747,807	564,446	1,412,048	1,976,494	7,724,301	9,047,727
Professional services - contributed	496	71,963	2,568	152,723	227,750	73,961	35,628	109,589	337,339	2,103,574
Supplies	30,477	358,059	17,416	292,976	698,928	117,776	77,004	194,780	893,708	936,557
Supplies and materials - contributed	-	39,887	-	11,353	51,240	202,698	-	202,698	253,938	2,792,414
Printing, publications and artwork	27,154	1,499,228	37,175	1,098,259	2,661,816	385,101	74,835	459,936	3,121,752	3,378,576
Membership/direct response marketing	248,515	6,956,066	124,258	192,599	7,521,438	2,089,707	142,896	2,232,603	9,754,041	11,431,739
Postage, shipping and delivery	18,616	1,708,055	16,076	1,463,957	3,206,704	165,272	54,202	219,474	3,426,178	3,377,063
Telephone	25,463	244,199	32,598	157,593	459,853	106,834	375,301	482,135	941,988	1,008,102
Occupancy	90,599	1,536,743	106,292	900,931	2,634,565	443,589	344,775	788,364	3,422,929	3,560,561
Insurance	38,916	305,376	18,676	160,228	523,196	87,199	70,127	157,326	680,522	667,424
Staff travel	65,795	745,137	54,919	469,286	1,335,137	388,785	168,860	557,645	1,892,782	1,733,967
Meetings and conferences	192,172	1,004,157	108,109	1,331,251	2,635,689	256,848	142,671	399,519	3,035,208	2,784,384
Equipment lease and maintenance	32,429	361,380	40,387	215,716	649,912	133,243	443,419	576,662	1,226,574	1,160,427
Membership dues and subscriptions	24,306	97,287	5,574	45,927	173,094	34,832	33,815	68,647	241,741	290,040
Specific assistance to individuals	-	22,872	-	353,408	376,280	-	-	-	376,280	319,908
Advertising	4,382	313,915	13,655	193,582	525,534	162,599	33,641	196,240	721,774	927,309
Miscellaneous	82,209	592,625	35,178	311,269	1,021,281	391,473	285,469	676,942	1,698,223	1,808,997
Depreciation	67,950	346,712	10,685	153,750	579,097	91,995	82,564	174,559	753,656	709,082
Uncollectible receivables	3,277	194,053	11,296	129,335	337,961	47,736	95,794	143,530	481,491	168,720
Total operating expenses	$ 10,039,087	$ 38,489,975	$ 2,076,585	$ 19,473,411	$ 70,079,058	$ 11,174,867	$ 10,178,552	$ 21,353,419	$ 91,432,477	$ 100,412,984

The accompanying notes are an integral part of this statement.

ARTHRITIS FOUNDATION,
CHARTERED ENTITIES AND THE NATIONAL OFFICE
Statement of Cash Flows
Year ended December 31, 2014 with Summarized Financial Information as of December 31, 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 5,411,211	$ 9,619,201
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	753,656	709,082
(Gain) loss on sale of property and equipment	(4,105)	61,193
Net unrealized losses (gains) in beneficial interests in perpetual trusts	169,742	(2,237,216)
Net realized and unrealized gains on investments	(4,252,676)	(11,172,939)
Net change in valuation in split interest agreements	227,003	273,385
Contributions restricted for long-term investment	(915,333)	(216,033)
Changes in assets and liabilities:		
Accounts and notes receivable	28,201	533,229
Contributions receivable	(3,196,114)	(1,401,622)
Funds held in trust by others	505,554	(774,779)
Prepaid expenses and other assets	625,204	(14,350)
Inventory	63,354	30,007
Beneficial interests in perpetual trusts	(634,428)	(1,892,053)
Accounts payable	(1,554,175)	(338,182)
Accrued expenses and other liabilities	277,513	(777,957)
Research awards and grants payable	487,840	(3,328,851)
Liabilities under split interest agreements	(735,556)	(446,084)
Net cash used in operating activities	(2,743,109)	(11,373,969)
Cash flows from investing activities:		
Purchase of property and equipment	(822,618)	(317,388)
Proceeds from sale of property and equipment	257,295	22,400
Purchase of investments	(38,198,025)	(46,106,982)
Proceeds from sale of investments	45,689,159	53,704,063
Net cash provided by investing activities	6,925,811	7,302,093
Cash flows from financing activities:		
Contributions restricted for long-term investment	915,333	216,033
Repayments of note payable	(383,047)	(400,000)
Proceeds from line of credit	1,000,000	-
Payments on line of credit	-	(500,000)
Payments on other long-term debt/capital lease obligations	(432,264)	(521,478)
Net cash provided by (used in) financing activities	1,100,022	(1,205,445)
Net increase (decrease) in cash and cash equivalents	5,282,724	(5,277,321)
Cash and cash equivalents at beginning of year	9,472,191	14,749,512
Cash and cash equivalents at end of year	$ 14,754,915	$ 9,472,191
Supplemental information		
Interest paid	$ 85,286	$ 158,349
Noncash investing and financing activities:		
Property and equipment acquired through capital leases	-	72,545
Write off of fully depreciated property and equipment	29,601	-
Contribution of beneficial interests in perpetual trusts	634,428	1,892,053

The accompanying notes are an integral part of this statement.

NOTE 1 – DESCRIPTION OF ORGANIZATION

The Arthritis Foundation (the "Foundation") is a voluntary health agency 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 Foundation provides public health education and community service programs along with supporting arthritis-related research and influencing public policy regarding research funding, access to care and government funding of arthritis-related public health programs.

The Arthritis Foundation is composed of a National Office (a not-for-profit Georgia corporation) and Chartered Entities located throughout the United States. The Chartered Entities are affiliated with the National Office via separate charter agreements. The charter agreements impose certain obligations on the Chartered Entities including adhering to national policies and sharing revenue. The Arthritis Foundation operates under a single (Section 501(c)(3) of the Internal Revenue Code ("IRC")) group exemption. Each chartered entity is a separate legal corporation and files its own IRS Form 990.

On May 1, 2014, the National Office acquired the assets and liabilities along with the service responsibilities for the areas covered by the former Arthritis Foundation, Inc. Southeast Region (the "Southeast Region") and the Arthritis Foundation, Inc., Upper Midwest Region (the "Upper Midwest Region"). Through these acquisitions, the Foundation seeks to achieve additional economies of scale and other synergies by integrating its service offerings with those provided by the Southeast and Upper Midwest Regions and centralizing certain administrative functions.

On January 1, 2015, the National Office received the charter agreements that were relinquished by the Arthritis Foundation, Inc., Mid-Atlantic Region (the "Mid-Atlantic Region") and the Arthritis Foundation, Inc., Florida Chapter (the "Florida Chapter"). Both entities have continued to operate as divisions of the National Office, but the National Office acquired the assets and liabilities of both the Mid-Atlantic Region and the Florida Chapter.

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 Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - The accompanying combined financial statements include the accounts of the Arthritis Foundation, Inc. National Office (the "National Office") and all Arthritis Foundation Chartered Entities (which are separately incorporated). All significant intra-Foundation accounts and transactions have been eliminated in the accompanying financial statements. The Foundation 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 Foundation 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 Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the Foundation maintains them permanently. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Operating results in the statement of activities reflect all transactions increasing and decreasing net assets except those that the Foundation defines as non-operating. Non-operating includes all investment returns in excess of those classified as operating by the spending policy, unrealized gains and losses from operating accounts, unrealized gains and losses on beneficial interests in perpetual trusts, changes in valuation of split interest agreements, returns of donor contributions, transfers of assets to the University of Pittsburgh, and net changes in pension liabilities.

Cash and Cash Equivalents - Cash accounts at some institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per eligible institution. At December 31, 2014, the Foundation's uninsured cash balance totaled approximately $10,610,000. The Foundation 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 cost (cost of securities if purchased or the fair market value at the date of gift if received by donation). Dividend and interest income is recorded on the accrual basis. In accordance with the policy of stating investments at fair value, the net change in unrealized appreciation or depreciation for the year is reflected in the statement of activities.

Accounts Receivable - Accounts receivable consist of exchange transactions primarily related to government grants and sales and service fees and are stated at unpaid balances, less an allowance for doubtful accounts when deemed necessary. Receivables are considered past due 120 days after billing.

Allowance for Doubtful Accounts - An allowance for doubtful accounts on outstanding accounts or contributions receivable balances is recorded when deemed necessary based upon historical trends, current market risk assessments and specific donor considerations. Receivables are written off when management believes they will not be collected. Amounts are considered past due if they are not received within one year after the expected payment date.

Inventory - Inventory consists of educational and campaign materials which are stated at lower of cost or market. Cost is determined by the weighted average method.

Split Interest Agreements - The Foundation's split interest agreements are recorded as follows:

Charitable Gift Annuities and Other Split Interest Agreements under which the Foundation is the Trustee are valued at the date of donation using the income method and discount rates commensurate with the risks involved. Discount rates range from three to 10 percent. Charitable gift annuities are amortized over their life although changes may be made based on a change in the life expectancy of the donor. Gift annuity assets are included in investments and amounts due to the donor are included in liabilities under split interest agreements.

Split Interest Gifts Held by Others are included with other contributions receivable on the statement of financial position. These gifts which benefit not only the Foundation, but other beneficiaries as designated by the donor, are carried at fair value with the changes recorded as a component of temporarily restricted income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Beneficial Interests in Perpetual Trusts - The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The Foundation has legally enforceable rights or claims to such assets including the right to income therefrom. Under the perpetual trust arrangement, the Foundation 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 investment income 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.

Funds Held in Trust by Others - Included in funds held in trust by others are split interest agreements not managed by the Foundation and funds transferred by various Chartered Entities to local community foundations to invest and manage. Most community foundation agreements state that the transfer is irrevocable and that the transferred assets will not be returned to the Foundation. However, the community foundations will make annual distributions of the income earned on the funds. Although unlikely, the agreement also permits the community foundations to substitute another beneficiary in the place of the Foundation if the Foundation ceases to exist or if the governing board of the community foundations votes that support of the Foundation either is no longer necessary or is inconsistent with the needs of the community.

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 Foundation's policy is to capitalize property and equipment acquisitions in excess of $5,000.

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 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 research grant application reviews, medical services, speakers, trainers, other program services, and other services that meet the criteria for recognition as contributed services.

In addition, the Foundation receives services from a large number of volunteers who give significant amounts of their time to the Foundation'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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Long-term promises to give are initially recorded at fair value using the income approach using discount rates commensurate with the risk involved at the date of donation.

Awards and Grants - Awards and grants are recorded as expenses in the year in which the award is made. 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 Foundation'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 Foundation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with GAAP. Actual results could differ from these estimates.

Summarized Data - The financial statements include certain prior year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such financial information should be read in conjunction with the Foundation's financial statements as of and for the year ended December 31, 2013 from which the summarized financial information was derived.

Reclassifications - Certain reclassifications have been made to the 2013 balances to conform to the 2014 presentation.

NOTE 3 – INVESTMENTS

Investments at December 31, 2014 and 2013 were as follows:

	2014	2013
Marketable securities		
U.S. Government securities	$ 7,003,763	$ 4,565,297
Corporate notes and bonds	6,506,140	6,295,772
Common stocks	25,386,284	24,555,438
Domestic equity mutual funds	15,956,492	20,795,447
Fixed income mutual funds	14,197,310	14,365,305
International equity mutual funds	6,821,982	6,900,372
Preferred stock	233,963	212,075
Alternative investments	2,227,973	2,565,703
Other commodities	1,289,446	1,439,447
Foreign issues	385,314	644,249
Other - principally money market and other mutual funds	2,826,559	3,166,117
	82,835,226	85,505,222
Split interest agreements		
U.S. Government securities	226,301	264,244
Corporate notes and bonds	176,823	167,521
Domestic equity mutual funds	8,662,909	7,241,113
Fixed income mutual funds	3,242,417	4,607,906
International equity mutual funds	1,926,667	2,042,674
	14,235,117	14,323,458
Total marketable securities	97,070,343	99,828,680
Certificates of deposit	363,408	843,529
Total investments	$ 97,433,751	$100,672,209

NOTE 3 – INVESTMENTS - Continued

The following schedule summarizes the investment returns, net of investment management fees, for the years ending December 31, 2014 and 2013:

	2014	2013
Investment return		
Income	$ 2,673,351	$ 4,468,672
Net realized and unrealized gains	4,252,676	11,172,939
Total investment return	6,926,027	15,641,611
Less investment return for operations	(5,275,140)	(5,186,952)
Non-operating investment return	$ 1,650,887	$ 10,454,659

NOTE 4 – FAIR VALUE MEASUREMENTS

Professional literature defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The guidance states that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs classified within Levels I and II of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level III of the hierarchy).

Level I - Quoted prices for identical instruments in active markets. This category includes domestic and international 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 includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities that are valued based on market prices for similar and actively traded investments. This category also includes alternative investments that are valued at net asset value ("NAV") per share for which the Region has the ability to redeem its investment at the measurement date.

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

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 Foundation's assumptions based on the best information available in the circumstances. This category includes split interest agreements and beneficial trusts for which the Foundation is not the trustee. The trusts are valued based on the values of the underlying investments in the trust which are established by the trustee using valuation methods that are appropriate for the investments in the trusts.

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

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Foundation's investments, split interest agreements and beneficial interests in perpetual trusts by the above hierarchy levels as of December 31, 2014:

	Level I	Level II	Level III	Total
U.S. Government securities	$ 4,580,659	$ 2,649,405	$ -	$ 7,230,064
Corporate notes and bonds				
Financial services industry	-	1,504,962	-	1,504,962
Healthcare industry	-	200,550	-	200,550
Industrial goods industry	-	408,276	-	408,276
Oil and gas industry	-	101,623	-	101,623
Real estate industry	-	176,823	-	176,823
Other	1,500,025	2,790,704	-	4,290,729
Common stocks				
Consumer goods industry	4,244,748	-	-	4,244,748
Energy industry	1,573,488	-	-	1,573,488
Financial services industry	4,251,271	-	-	4,251,271
Healthcare industry	3,691,377	-	-	3,691,377
Industrial goods industry	2,303,499	-	-	2,303,499
Materials industry	785,202	-	-	785,202
Oil and gas industry	-	-	-	-
Technology industry	3,238,052	-	-	3,238,052
Telecommunications industry	-	-	-	-
Utilities industry	1,010,621	-	-	1,010,621
Other	4,288,026	-	-	4,288,026
Domestic equity mutual funds	17,763,076	6,856,325	-	24,619,401
Fixed income mutual funds	10,083,740	7,355,987	-	17,439,727
International equity mutual funds	6,239,246	2,509,403	-	8,748,649
Preferred stock	233,963	-	-	233,963
Alternative investments	-	2,227,973	-	2,227,973
Other commodities	330,756	958,690	-	1,289,446
Foreign issues	-	385,314	-	385,314
Other - principally money market and other mutual funds	2,826,559	-	-	2,826,559
Total marketable securities included in investments	68,944,308	28,126,035	-	97,070,343
Beneficial interests in perpetual trusts	-	-	35,534,105	35,534,105
Funds held in trust by others	-	-	11,223,540	11,223,540
Total	$ 68,944,308	$ 28,126,035	$ 46,757,645	$ 143,827,988

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the valuation of the Foundation's investments, split interest agreements and beneficial interests in perpetual trusts by the above hierarchy levels as of December 31, 2013:

	Level I	Level II	Level III	Total
U.S. Government securities	$ 3,049,759	$ 1,779,782	$ -	$ 4,829,541
Corporate notes and bonds				
Financial services industry	-	1,884,732	-	1,884,732
Industrial goods industry	-	1,242,983	-	1,242,983
Real estate industry	-	167,521	-	167,521
Other	1,862,039	1,306,018	-	3,168,057
Common stocks				
Consumer goods industry	4,527,171	-	-	4,527,171
Energy industry	1,451,336	-	-	1,451,336
Financial services industry	3,579,829	-	-	3,579,829
Healthcare industry	3,350,378	-	-	3,350,378
Industrial goods industry	2,101,115	-	-	2,101,115
Materials industry	1,263,229	-	-	1,263,229
Oil and gas industry	352,931	-	-	352,931
Technology industry	2,804,840	-	-	2,804,840
Telecommunications industry	347,164	-	-	347,164
Utilities industry	210,244	-	-	210,244
Other	4,567,201	-	-	4,567,201
Domestic equity mutual funds	20,831,377	7,205,183	-	28,036,560
Fixed income mutual funds	11,123,024	7,850,187	-	18,973,211
International equity mutual funds	6,185,339	2,757,707	-	8,943,046
Preferred stock	212,075	-	-	212,075
Alternative investments	-	2,565,703	-	2,565,703
Other commodities	426,682	1,012,765	-	1,439,447
Foreign issues	-	644,249	-	644,249
Other - principally money market and other mutual funds	3,019,792	146,325	-	3,166,117
Total marketable securities included in investments	71,265,525	28,563,155	-	99,828,680
Beneficial interests in perpetual trusts	-	-	35,069,419	35,069,419
Funds held in trust by others	-	-	11,729,094	11,729,094
Total	$ 71,265,525	$ 28,563,155	$ 46,798,513	$ 146,627,193

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the Foundation's Level III reconciliation for the beneficial interests in perpetual trusts and funds held in trust by others for the years ended December 31, 2014 and 2013:

	2014	2013
Beginning balance	$ 46,798,513	$ 41,894,465
Increase in beneficial interests in perpetual trusts	634,428	1,892,053
(Decrease) increase in funds held in trust by others	(505,554)	774,779
Net unrealized (losses) gains	(169,742)	2,237,216
Ending balance	$ 46,757,645	$ 46,798,513

The Foundation utilizes the net asset value "NAV" reported by each of the alternative funds as a practical expedient for determining the fair value of the investment. These investments are redeemable at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the Foundation's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the Foundation's interest in the funds.

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

The following table discloses the nature and risks of the Foundation's alternative investments classified as Level II at December 31, 2014:

	Total Market Value	Exit Frequency	Days Notice
Hedge funds disclosed as Level II			
BA Hedge Fund Direct - OZ Domestic Partners II	$ 10,260	Quarterly	45
BACAP Multi-Strategy Hedge Fund, LTD.	739,718	Quarterly	65
Goldman Sachs Absolute Return Tracker Fund Institutional Shares	560,393	Daily	N/A
Hatteras Alpha Hedged Strategies Fund Institutional Shares	372,351	Daily	N/A
PIMCO Global Multi-Asset Fund Institutional Class	370,817	Daily	N/A
Total hedge funds disclosed as Level II	2,053,539		
Real estate funds disclosed as Level II			
BA Diversified Real Estate Fund, L.P.	174,434	Quarterly	90
Total alternative investments disclosed as Level II	$ 2,227,973		

BA Hedge Fund Direct – OZ Domestic Partners II – this is an offshore hedge fund that invests primarily in a portfolio of equity securities, but its portfolio includes convertible securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives.

BACAP Multi-Strategy Hedge Fund, LTD. – this is an offshore hedge fund that invests primarily in private investment funds and discretionary managed accounts managed by fund managers who invest across a diverse range of strategies and markets.

Goldman Sachs Absolute Return Tracker Fund Institutional Shares – this is an offshore hedge fund that seeks to deliver long-term total return consistent with investment results that approximate the return and risk patterns of a diversified universe of hedge funds. The fund uses a quantitative methodology in combination with a qualitative overlay to seek to identify the market exposures that approximate the return and risk patterns of specific hedge fund sub-strategies. The hedge fund sub-strategies whose returns the fund seeks to approximate include, but are not limited to, Equity Long Short, Event Driven, Relative Value, and Macro sub-strategies.

NOTE 4 – FAIR VALUE MEASUREMENTS - Continued

Hatteras Alpha Hedged Strategies Fund Institutional Shares – this is a hedge fund that seeks to achieve consistent returns with low correlation to traditional financial market indices while maintaining a high correlation to the Hedge Fund Research, Inc. ("HFRI") Fund of Funds Composite Index. The fund pursues its investment objective by investing primarily in affiliated Long/Short Equity, Market Neutral, Relative Value - Long/Short Debt, Event Driven and Managed Futures Strategies portfolios ("underlying funds"). It may also invest in other non-affiliated investment companies primarily including exchange-traded funds ("ETFs").

PIMCO Global Multi-Asset Fund Institutional Class – this is a hedge fund that seeks maximum long-term absolute return, consistent with prudent management of portfolio volatility. The fund seeks to achieve its investment objective by investing under normal circumstances in a combination of affiliated and unaffiliated funds, which may or may not be registered under the Investment Company Act of 1940, as amended (the "1940 Act"), Fixed Income Instruments, equity securities, forwards and derivatives. "Fixed Income Instruments" include bonds, debt securities and other similar instruments issued by various U.S. and non-U.S. public - or private sector entities. The fund is non-diversified.

BA Diversified Real Estate Fund, L.P. – this is a partnership established to conduct real estate related investment activities and any business or activities incidental to or in support of such real estate related investment activities.

NOTE 5 – ENDOWMENTS

The Foundation's endowment consists of a number of individual funds established for research, specific programs and operations.

The Foundation understands the law 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 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 applicable donor gift instrument at the time the accumulation is added to the fund.

For the Chartered Entity organized in the State of Pennsylvania, management understands Pennsylvania State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. State law also allows the Foundation to appropriate and spend such income and gains as is prudent, considering such factors as the Foundation's long and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions. Accordingly, such realized and unrealized gains and losses are reported as temporarily restricted or unrestricted, based upon the presence or absence of donor stipulations as to their use.

NOTE 5 – ENDOWMENTS - Continued

The remaining portion of donor-restricted endowment funds 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 the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the Foundation or 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 Foundation; and
7. The investment policy of the Foundation.

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, is reported as a reduction in unrestricted net assets. For the year ended December 31, 2013, as a result of unfavorable market conditions, the Foundation's endowment funds experienced deficiencies from original fair value totaling $261, which was recorded as a decrease in unrestricted net assets as required by GAAP. No such deficiencies were noted for the year ended December 31, 2014.

The primary long-term financial objective for the Foundation'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 Foundation'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.

Foundation policy requires endowment assets to be governed by a spending policy that seeks to distribute a specific payout rate of the endowment base to support the Foundation'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). Without specific board action to either increase or decrease the payout rate, the Foundation's annual investment income payout distribution is calculated at a rate of four percent of the rolling three year average fair market value of the investments plus amounts paid for share on investment income. The policy allows for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments.

NOTE 5 – ENDOWMENTS - Continued

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 Foundation'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.). 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.

In considering the prudency criteria as outlined by UPMIFA, in 2013, the board of one of the Chartered Entities determined that it was prudent to appropriate an additional $1.6 million in accumulated earnings on which there were no purpose restrictions to fund research, consumer initiatives through the National Office, and operations.

The composition of donor restricted endowment net assets as of December 31, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 5,564,784	$ 37,688,556	$ 43,253,340

The composition of donor restricted endowment net assets as of December 31, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 7,889,743	$ 37,008,070	$ 44,897,813

NOTE 5 – ENDOWMENTS - Continued

The changes in endowment net assets as of December 31, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, January 1, 2013	$ 4,569,999	$ 6,586,874	$ 36,958,302	$ 48,115,175
Investment Return				
Income	-	804,688	-	804,688
Net appreciation (realized and unrealized)	261	3,693,629	-	3,693,890
Total investment return	261	4,498,317	-	4,498,578
Contributions	-	-	117,102	117,102
Appropriation of endowment assets for expenditure	(570,260)	(3,195,448)	(67,334)	(3,833,042)
Release of board designated quasi-endowment	(4,000,000)	-	-	(4,000,000)
Endowment Net Assets, December 31, 2013	-	7,889,743	37,008,070	44,897,813
Investment Return				
Income	-	622,592	28,996	651,588
Net appreciation (realized and unrealized)	-	799,420	-	799,420
Total investment return	-	1,422,012	28,996	1,451,008
Contributions	-	-	833,963	833,963
Appropriation of endowment assets for expenditure	-	(3,746,971)	(182,473)	(3,929,444)
Endowment Net Assets, December 31, 2014	$ -	$ 5,564,784	$ 37,688,556	$ 43,253,340

NOTE 6 – CONTRIBUTIONS RECEIVABLE

The Foundation had the following contributions receivable at December 31, 2014 and 2013:

	2014	2013
Amounts due		
In less than one year	$ 16,656,398	$ 14,421,096
In one to five years	2,234,521	1,521,329
Gross contributions receivable	18,890,919	15,942,425
Allowance for doubtful accounts	(565,396)	(818,803)
Unamortized present value discount	(93,326)	(87,539)
Net contributions receivable	$ 18,232,197	$ 15,036,083

Discounts on contributions receivable were calculated at the date of donation using rates commensurate with the risks involved (one percent to nine percent).

NOTE 7 – SPLIT INTEREST AGREEMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

The Foundation had the following interests at December 31, 2014 and 2013:

	2014	2013
Split interest agreements - Foundation is the trustee		
Charitable remainder trusts	$ 3,553,453	$ 3,421,989
Gift annuity fund	10,182,498	10,462,774
Pooled income fund	499,166	438,695
Split interest agreements (included in investments)	14,235,117	14,323,458
Funds held in trust by others - Foundation is not the trustee	11,223,540	11,729,094
Beneficial interests in perpetual trusts - Foundation is not the trustee	35,534,105	35,069,419
	$ 60,992,762	$ 61,121,971

The assets are reported on the statement of financial position and are valued at estimated fair-value. Liabilities under split interest agreements for which the Foundation is the trustee were $9,372,216 and $9,880,769 for December 31, 2014 and 2013, respectively and were valued at the date of donation using the income approach at discount rates commensurate with the risk involved (between three and 10 percent). They are being amortized over the terms of the obligations. Adjustments are made to the value of the split interest agreements when there are changes in the life expectancy of the donor.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2014 and 2013:

	Estimated useful life	2014	2013
Land		$ 3,035,651	$ 3,047,651
Building and improvements	(10-30 years)	11,381,606	11,548,608
Leasehold improvements	(3-10 years)	655,853	667,916
Furniture and other equipment	(3-7 years)	4,147,194	3,692,759
		19,220,304	18,956,934
Accumulated depreciation		(10,514,919)	(10,067,321)
Net property and equipment		$ 8,705,385	$ 8,889,613

Depreciation expense was $753,656 and $709,082 for the years ended December 31, 2014 and 2013, respectively.

NOTE 9 – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at December 31, 2014 and 2013:

	2014	2013
Wages, payroll taxes and other related liabilities	$ 1,760,462	$ 2,278,994
Defined benefit obligation - unfunded	1,217,329	1,132,166
Deferred compensation plan	26,792	381,838
Other	4,396,512	3,330,584
Total accrued expenses and other liabilities	$ 7,401,095	$ 7,123,582

NOTE 10 – DEBT OBLIGATIONS

The Foundation 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, 2014 and 2013 were $100,533 and $240,095, respectively, and are included in property and equipment on the statement of financial position.

NOTE 10 – DEBT OBLIGATIONS - Continued

Revenue Bonds - On November 1, 2009, the National Office amended its loan agreement (original date: December 1, 1996) with the Development Authority of Fulton County. Under this amendment, the National Office converted its existing bonds in the amount of $3,600,000 to “bank qualified” bonds to be held until maturity by SunTrust Bank. The principal amount of the reissued bonds was $3,600,000. The credit agreement between the National Office and SunTrust Bank and the amended and restated Indenture of Trust stipulate that the interest rate paid on the bonds shall be a rate equal to 67 percent of the sum of LIBOR plus 2.5 percent. The substantive effect of the reissuance of the bonds was to eliminate the need to remarket the bonds which lowers the National Office’s overall cost of borrowing by the amount of the remarketing and letter of credit fees. The National Office had related notes payable balances in the amount of $1,100,000 and $1,600,000 at December 31, 2014 and 2013 with related interest rates of 1.78 percent and 1.79 percent, respectively.

Line of Credit - At December 31, 2014, the Foundation had available lines of credit in the amount of $7,300,000. At December 31, 2014, the Foundation had outstanding draws of $1,000,000. No amounts were outstanding on the lines of credit at December 31, 2013. Such debt obligations are secured by land, building and other assets. Interest rates ranged from 3 percent to 3.25 percent at December 31, 2014.

Future minimum lease payments under capital leases and total debt obligations were as follows at December 31, 2014 and 2013:

	2014	2013
2014	$ -	$ 339,412
2015	280,571	304,571
2016	38,633	38,633
2017	18,520	18,520
2018	1,598	1,598
Total future minimum lease payments	339,322	702,734
Less amounts representing interest	(14,136)	(40,237)
Present value of net minimum lease payments	325,186	662,497
Summary of debt obligations		
Notes payable	1,122,000	1,600,000
Lines of credit	1,000,000	-
Present value of capital lease payments	325,186	662,497
Total debt obligations	$ 2,447,186	$ 2,262,497

NOTE 10 – DEBT OBLIGATIONS - Continued

Maturities of notes payable are as follows for the years ending subsequent to December 31, 2014:

	Notes Payable	Lines of Credit
2015	$ 522,000	$ 1,000,000
2016	600,000	-
Total	$ 1,122,000	$ 1,000,000

NOTE 11 – JOINT COSTS

In 2014 and 2013, the Foundation incurred joint costs of $9,754,041 and $11,431,739, respectively, for informational materials and activities that included fundraising appeals, such as the Foundation's direct mail. Joint costs for the years ended December 31, 2014 and 2013 were allocated as follows:

	2014	2013
Public health education	$ 6,956,066	$ 8,272,594
Fundraising	2,089,707	2,495,275
Management and general	142,896	118,551
Other programs	565,372	545,319
	$ 9,754,041	$ 11,431,739

NOTE 12 – NET ASSETS

Temporarily restricted net assets at December 31, 2014 and 2013 were available for the following purposes:

	2014	2013
Programs, scholarships, training and projects	$ 14,738,124	$ 14,511,757
Research	13,242,037	15,445,106
Building improvements	53,825	-
Use in future periods	18,996,078	17,396,249
Total temporarily restricted net assets	$ 47,030,064	$ 47,353,112

Permanently restricted net assets consisted of the following at December 31, 2014 and 2013 and represent endowed gifts to be held in perpetuity with the investment income to be used for the following:

	2014	2013
Research, operations, and specific projects	$ 41,145,464	$ 40,014,428
Beneficial interests in perpetual trusts	35,534,105	35,069,419
Total permanently restricted net assets	$ 76,679,569	$ 75,083,847

Temporarily restricted net assets released from restrictions consisted of the following in the years ended December 31, 2014 and 2013:

	2014	2013
Programs	$ 7,513,753	$ 10,187,053
Building improvements	-	273,702
Research	4,428,520	5,534,365
Time release	4,264,384	4,195,984
Temporarily restricted net assets released from restriction	$ 16,206,657	$ 20,191,104

NOTE 13 – OPERATING LEASES

Rental expense for Foundation office space was $3,574,301 and $3,993,448 for the years ended December 31, 2014 and 2013, respectively. Lease agreements having an original term of more than one year expire on various dates through 2021. Total future minimum lease payments were as follows at December 31, 2014:

2015	$ 1,484,587
2016	3,236,110
2017	2,677,833
2018	1,658,297
2019	768,591
Thereafter	712,524
Total future minimum lease payments	$ 10,537,942

On April 28, 2015, the National Office sold their office building to a third party, and future minimum rental income subsequent to the date of this report will be zero. In addition, according to the sale agreement with the third party, the National Office will lease back the office space until October 28, 2015.

NOTE 14 – EMPLOYEE BENEFIT PLANS

Employee Contribution Plans

Defined Contribution Plans - The Foundation sponsors various defined contribution retirement plans (the “defined contribution plans”) covering substantially all of the employees of the Foundation. Participants may contribute a percentage of their compensation on a pretax basis. The Foundation matches a portion of the participants’ compensation. Vesting policies are based on the specific defined contribution plan operated either at the National Office or the chartered entity. Total contributions to the defined contribution plans for the years ended December 31, 2014 and 2013 were $501,914 and $1,200,703, respectively.

Effective January 3, 2014, the National Office suspended employer profit sharing contributions and required matching contributions to the 401(k) Defined Contribution Retirement Plan. Accordingly, no employer contributions were made to the Plan for the year ended December 31, 2014 other than a discretionary employer matching contribution of $28,451 which was fully funded by available forfeitures. On January 1, 2015, the National Office reinstated all employer contributions.

NOTE 14 – EMPLOYEE BENEFIT PLANS - Continued

Deferred Compensation Plan - The National Office also maintains a 457(b) nonqualified deferred compensation plan that permits a select group of executive level employees to set aside a portion of salary on a before-tax basis. In addition to voluntary elective deferrals, the National Office makes non-elective contributions to the plan. At the discretion of the National Office, participants are allowed to allocate plan contributions and designate beneficiaries. The National Office's contributions totaled $64,673 for the year ended December 31, 2013. No contributions were made for the year ended December 31, 2014. All assets under the plan remain part of the National Office's general assets and are subject to the claims of its creditors. All rights to amounts held under the plan are owned by the National Office. Therefore, the National Office reports the assets and related liabilities of the plan in its statement of position. At December 31, 2014 and 2013, the assets and liabilities each totaled $26,792 and $381,838, respectively.

Defined Benefit Plans

The Foundation has various defined benefit pension plans (the "Plan") covering certain employees. Benefits are based on years of service and compensation. Contributions are determined in accordance with each Plan's provisions.

The following table illustrates the percentage of fair value of total plan assets for each major category of plan assets for the year ended December 31, 2014 and 2013.

	December 31,	
	2014	2013
Equity	0-64%	0-66%
Debt Securities	0-84%	0-89%
Other	0-100%	0-100%
	100%	100%

The following table sets forth the Plan's funded status and amounts recognized in the Foundation's statement of financial position as part of accrued expenses and other liabilities.

	December 31,	
	2014	2013
Fair value of plan assets at year end	$ 3,415,911	$ 3,369,001
Benefit obligation at year end	4,917,980	4,501,167
Funded status	$ (1,502,069)	$ (1,132,166)

NOTE 14 – EMPLOYEE BENEFIT PLANS - Continued

Amounts recognized on the statement of financial position consist of:

	2014	2013
Accrued benefit cost	$ (1,502,069)	$ (1,132,166)
Net amount recognized	$ (1,502,069)	$ (1,132,166)

Weighted average assumptions as of the year ended December 31, 2014 and 2013 were:

	December 31,	
	2014	2013
Discount rate	3.2-4.25%	3.2-5.5%
Expected return on plan assets	2.75-4.75%	3.75-8.0%
Rate of compensation increase	5%	4.5-8.0%
Benefit cost	$ 3,119,954	$ 63,624
Employer contribution	$ 370,094	$ 276,654
Benefits paid	$ 21,781	$ 845,040

The components of net periodic benefit are:

	December 31,	
	2014	2013
Service cost	$ 127,621	$ 125,344
Interest cost	143,155	164,595
Actual return on plan assets	(95,133)	45,886
Amortization of initial unrecognized net obligation of net assets	(599)	(2,002)
Amortization of prior service cost	-	37,737
Amortization of loss (gain) deferred	37,928	(117,962)
Net periodic pension cost	$ 212,972	$ 253,598

NOTE 14 – EMPLOYEE BENEFIT PLANS - Continued

The following represents the Foundation'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:	
2015	$ 111,317
2016	90,917
2017	135,425
2018	100,705
2019	158,901
Five years thereafter	1,524,835
Total estimated benefit payments for the next ten years	$ 2,122,100

For each chartered entity with a defined benefit plan, the expected long-term rate of return on plan assets assumption, ranging from 4.75 percent to 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 Chartered Entities' 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 was selected and added to the real rate of return range to arrive at a best estimate range. A rate 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, 2014	Reclassified as Net Periodic Benefit Cost	Amounts Arising During Period	December 31, 2014
Unrecognized transition (asset) obligation	$ (4,054)	$ 1,502	$ 487,704	$ 485,152
Net loss (gain)	$ 687,532	$ (72,242)	$ 273,489	$ 888,779

The estimated amounts to be reclassified during 2014 as net period benefit amounts include an unrecognized transition asset of $2,002. Additionally, no plan assets are expected to be returned to the Foundation during the 2015 fiscal year.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Foundation has commitments for research awards and grants for future years. The terms of research awards and grants are from one to three years with continuation of grants subject to certain performance requirements. At December 31, 2014, these commitments were as follows:

2015	$ 2,800,000
2016	700,000
2017	200,000
2018	200,000
Total commitments	$ 3,900,000

The Foundation is involved in litigation arising from the normal course of business. Although the ultimate outcome of such matters cannot be predicted with certainty, management believes that the current expected outcome of any such matter will not have a material adverse effect on the Foundation's financial condition.

NOTE 16 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2014 financial statements through May 11, 2015, the date that the financial statements were available to be issued.

As discussed in Note 1, the National Office acquired the charters of both the Mid-Atlantic Region and the Florida Chapter on January 1, 2015. Both of these entities will continue to operate as divisions of the National Office.

On April 28, 2015, the National Office finalized the sale to a third party of the building that currently provides office space for both the National Office and the Southeast Region and rental income from several tenants. The building sold for a net purchase price of approximately $5,460,000 which includes payment for National to lease back office space (see Note 13). At December 31, 2014, the building and the land had a net book value of approximately $4,090,000.