



**FINANCIAL STATEMENTS  
MARCH 31, 2006 AND 2005**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the  
Arthritis National Research Foundation

We have audited the accompanying statements of financial position of Arthritis National Research Foundation (a nonprofit corporation) as of March 31, 2006 and 2005, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Arthritis National Research Foundation as of March 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Long Beach, California  
June 1, 2006

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

	<b>ASSETS</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 606,099	\$ 391,485
Accrued interest	10,505	14,987
Investments	2,269,933	2,677,458
Equipment, net	<u>3,183</u>	<u>2,649</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,889,720</u></b>	<b><u>\$ 3,086,579</u></b>
 <b>LIABILITIES AND NET ASSETS</b>  		
<b>LIABILITIES</b>		
Bank overdraft		\$ 177,758
Accounts payable	\$ 4,901	<u>5,161</u>
	<u>4,901</u>	<u>182,919</u>
<b>COMMITMENTS (Note 5)</b>		
<b>NET ASSETS</b>		
Unrestricted	<u>2,884,819</u>	<u>2,903,660</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,889,720</u></b>	<b><u>\$ 3,086,579</u></b>

The accompanying notes are an integral part of these statements.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2006**

**UNRESTRICTED**

**SUPPORT AND REVENUE**

Public support

Contributions and bequests	\$ 737,182
Total Public Support	<u>737,182</u>

Revenue

Interest income	25,672
Dividend income	36,022
Gain on sale of investments	134,860
Unrealized loss on investments	( 59,029)
Total Revenue	<u>137,525</u>

**TOTAL SUPPORT AND REVENUE** 874,707

**EXPENSES**

Program Services

Research	732,565
Education	<u>96,073</u>
Total Program Services	<u>828,638</u>

Supporting Services

Management and general	42,830
Fundraising	<u>22,080</u>
Total Supporting Services	<u>64,910</u>

**TOTAL EXPENSES** 893,548

**CHANGE IN NET ASSETS** ( 18,841)

**NET ASSETS AT BEGINNING OF YEAR** 2,903,660

**NET ASSETS AT END OF YEAR** \$ 2,884,819

The accompanying notes are an integral part of these statements.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Public support			
Contributions and bequests	\$ 635,384		\$ 635,384
Special event, net (Note 4)	26,280		26,280
Net assets released from restrictions:			
Satisfaction of program/purpose restrictions	1,500	(\$ 1,500)	
Total Public Support	<u>663,164</u>	<u>( 1,500)</u>	<u>661,664</u>
Revenue			
Interest income	40,151		40,151
Dividend income	18,644		18,644
Gain on sale of investments	143,207		143,207
Unrealized gain on investments	21,915		21,915
Total Revenue	<u>223,917</u>		<u>223,917</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>887,081</u>	<u>( 1,500)</u>	<u>885,581</u>
<b>EXPENSES</b>			
Program Services			
Research	610,498		610,498
Education	78,419		78,419
Total Program Services	<u>688,917</u>		<u>688,917</u>
Supporting Services			
Management and general	42,401		42,401
Fundraising	23,438		23,438
Total Supporting Services	<u>65,839</u>		<u>65,839</u>
<b>TOTAL EXPENSES</b>	<u>754,756</u>		<u>754,756</u>
<b>CHANGE IN NET ASSETS</b>	132,325	( 1,500)	130,825
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>2,771,335</u>	<u>1,500</u>	<u>2,772,835</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$2,903,660</u>	<u>None</u>	<u>\$2,903,660</u>

The accompanying notes are an integral part of these statements.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	(\$ 18,841)	\$ 130,825
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,103	568
Gain on sale of investments	( 134,860)	( 143,207)
Unrealized (gain) loss on investments	59,029	( 21,915)
Stock donation received	( 2,587)	( 2,125)
Loss on disposal of assets	2,245	
(Increase) decrease in:		
Accrued interest	4,482	( 224)
Prepaid expenses		1,405
Increase (decrease) in:		
Bank overdraft	( 177,758)	177,758
Accounts payable	( 260)	560
Net Cash Provided By (Used In) Operating Activities	( 267,447)	143,645
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	( 581,479)	( 537,799)
Proceeds from sale of investments	1,067,422	574,613
Purchases of equipment	( 3,882)	
Net Cash Provided By Investing Activities	482,061	36,814
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	214,614	180,459
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	391,485	211,026
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 606,099	\$ 391,485

The accompanying notes are an integral part of these statements.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2006**

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Research</u>	<u>Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Research grants	\$659,654		\$ 659,654				\$ 659,654
Salaries	30,338	\$ 32,064	62,402	\$ 4,313	\$ 3,788	\$ 8,101	70,503
Clerical support	3,030	2,785	5,815	317	326	643	6,458
Payroll tax	2,728	2,764	5,492	487	326	813	6,305
Health insurance	4,918	4,823	9,741	3,871	587	4,458	14,199
Rent/parking	4,060	3,649	7,709	833	539	1,372	9,081
Telephone	2,648	2,636	5,284		287	287	5,571
Insurance	961	1,035	1,996	3,253	110	3,363	5,359
Investment fees				18,761		18,761	18,761
Advertising		9,310	9,310		1,816	1,816	11,126
Administration	2,866	8,791	11,657	4,993	9,105	14,098	25,755
Loss on disposal of assets				2,245		2,245	2,245
Professional fees	11,286	2,064	13,350	2,816	858	3,674	17,024
Directories	43	3,467	3,510		360	360	3,870
Depreciation	221	772	993	55	55	110	1,103
Recognition	1,937	141	2,078	693	307	1,000	3,078
Professional meetings	3,515	402	3,917		402	402	4,319
Dues and subscriptions	73	500	573	58	410	468	1,041
Printing	2,607	11,849	14,456	73	1,482	1,555	16,011
Board meetings	1,680	28	1,708	62		62	1,770
Education event		8,993	8,993		1,322	1,322	10,315
	<u>\$732,565</u>	<u>\$ 96,073</u>	<u>\$ 828,638</u>	<u>\$ 42,830</u>	<u>\$22,080</u>	<u>\$ 64,910</u>	<u>\$ 893,548</u>

The accompanying notes are an integral part of these statements.



**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2005**

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Research</u>	<u>Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Research grants	\$546,019		\$ 546,019				\$ 546,019
Salaries	28,650	\$ 27,863	56,513	\$ 5,288	\$ 8,700	\$ 13,988	70,501
Clerical support	2,648	2,244	4,892	429	719	1,148	6,040
Payroll tax	2,544	2,383	4,927	445	740	1,185	6,112
Health insurance	3,896	4,231	8,127	489	1,010	1,499	9,626
Rent/parking	4,926	5,492	10,418	1,067	915	1,982	12,400
Telephone	1,519	2,567	4,086		241	241	4,327
Insurance	3,617	2,173	5,790	( 305)	1,389	1,084	6,874
Investment fees				19,218		19,218	19,218
Advertising	100	18,681	18,781		5,195	5,195	23,976
Administration	2,484	4,372	6,856	12,886	1,629	14,515	21,371
Professional fees	3,538	2,438	5,976	1,438	1,438	2,876	8,852
Directories	259	3,415	3,674		283	283	3,957
Depreciation	114	398	512	28	28	56	568
Recognition	1,805	662	2,467	317	314	631	3,098
Professional meetings	7,000		7,000	1,000		1,000	8,000
Dues and subscriptions	169	569	738	11	556	567	1,305
Printing	970	466	1,436		264	264	1,700
Board meetings	240	465	705	90	17	107	812
	<u>\$610,498</u>	<u>\$ 78,419</u>	<u>\$ 688,917</u>	<u>\$ 42,401</u>	<u>\$23,438</u>	<u>\$ 65,839</u>	<u>\$ 754,756</u>

The accompanying notes are an integral part of these statements.

# ARTHRITIS NATIONAL RESEARCH FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006 AND 2005

### NOTE 1 – Summary of Significant Accounting Policies

#### *Organization*

Arthritis National Research Foundation (the Foundation) was incorporated on May 2, 1952 as a California nonprofit corporation. The Foundation was organized to study arthritis, secure knowledge of its cause and effect, and publish information concerning arthritis.

#### *Financial Statement Presentation*

The Foundation applies Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. As of March 31, 2006 and 2005, the Foundation had no permanently restricted net assets. As of March 31, 2006, the Foundation had no temporarily restricted net assets.

#### *Contributions*

The Foundation accounts for contributions using SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Under this statement, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

#### *Concentration of Credit Risk – Cash*

At March 31, 2006 and throughout the year, the Foundation had cash balances in its financial institutions in excess of federally insured limits.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2006 AND 2005**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

*Use of Estimates and Assumptions*

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

*Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

*Investments*

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

*Equipment*

Equipment is stated at cost. Depreciation of equipment is computed using the straight-line method over their estimated useful lives of three to five years.

*Allocation of Functional Expenses*

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Income Taxes*

The Foundation has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively. In addition, the Internal Revenue Service has determined that the Foundation is not a “private foundation.” Accordingly, no provision for income taxes is included in the accompanying financial statements.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2006 AND 2005**

**NOTE 2 – Investments**

Investments are shown on the statements of financial position at fair market value. Investments are summarized as follows:

	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
U.S. Treasury Notes	\$ 248,965	\$ 644,215
Corporate bonds and notes	258,706	362,179
Common stocks	1,762,262	1,671,064
	<b>\$ 2,269,933</b>	<b>\$ 2,677,458</b>

**NOTE 3 – Equipment**

Equipment consists of the following:

	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
Computer equipment	\$ 8,806	\$ 7,764
Less: accumulated depreciation	5,623	5,115
	<b>\$ 3,183</b>	<b>\$ 2,649</b>

**NOTE 4 – Special Event**

During the year ended March 31, 2005, the Foundation organized a golf tournament. The Foundation did not organize a golf tournament during the year ended March 31, 2006. A summary of the event's revenue and expenses is as follows:

Tournament revenue	\$ 31,380
Contributions	15,250
	46,630
Expenses	( 20,350)
	<b>\$ 26,280</b>

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2006 AND 2005**

**NOTE 5 – Commitments**

The Foundation leases commercial office space and office equipment under various terms through 2011 or on a month-to-month basis. The terms of the office space lease provide for payment of minimum annual rentals, with fixed increases in annual rents.

Future minimum lease payments are as follows:

<u>Year Ending March 31,</u>	
2007	\$ 16,257
2008	16,700
2009	17,167
2010	16,426
2011	<u>14,814</u>
	<u>\$ 81,364</u>

Rent expense for the years ended March 31, 2006 and 2005 was \$10,147 and \$12,400, respectively.