



**FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

CONTENTS

Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities.....	3-4
Statements of Cash Flows	5
Statements of Functional Expenses	6-7
Notes to the Financial Statements.....	8-11



**WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION**

*Certified Public Accountants
& Consultants*

Landmark Square
111 West Ocean Boulevard
Twenty-Second Floor
Long Beach, CA 90802

Tel: (562) 435-1191
Fax: (562) 495-1665

www.windes.com

*Other Offices:
Irvine
Torrance*

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, 2007 and 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. accounting principles generally accepted in the United States of America.

Long Beach, California
August 3, 2007

ARTHRITIS NATIONAL RESEARCH FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	ASSETS	
	March 31,	
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 324,567	\$ 606,099
Accrued interest	5,430	10,505
Investments	2,631,433	2,269,933
Equipment	<u>2,486</u>	<u>3,183</u>
TOTAL ASSETS	<u>\$ 2,963,916</u>	<u>\$ 2,889,720</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	<u>\$ 4,937</u>	<u>\$ 4,901</u>
COMMITMENTS (Note 4)		
NET ASSETS		
Unrestricted	2,948,693	2,884,819
Permanently restricted	<u>10,286</u>	<u> </u>
	<u>2,958,979</u>	<u>2,884,819</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,963,916</u>	<u>\$ 2,889,720</u>

The accompanying notes are an integral part of these statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2007**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Public support			
Contributions and bequests	\$ 754,228	\$ 10,286	\$ 764,514
Total Public Support	<u>754,228</u>	<u>10,286</u>	<u>764,514</u>
Revenue			
Interest income	22,819		22,819
Dividend income	42,580		42,580
Gain on sale of investments	136,904		136,904
Unrealized gain on investments	<u>121,979</u>		<u>121,979</u>
Total Revenue	<u>324,282</u>		<u>324,282</u>
TOTAL SUPPORT AND REVENUE	<u>1,078,510</u>	<u>10,286</u>	<u>1,088,796</u>
EXPENSES			
Program Services			
Research	866,062		866,062
Education	<u>79,147</u>		<u>79,147</u>
Total Program Services	<u>945,209</u>		<u>945,209</u>
Supporting Services			
Management and general	53,661		53,661
Fund-raising	<u>15,766</u>		<u>15,766</u>
Total Supporting Services	<u>69,427</u>		<u>69,427</u>
TOTAL EXPENSES	<u>1,014,636</u>		<u>1,014,636</u>
CHANGE IN NET ASSETS	63,874	10,286	74,160
NET ASSETS AT BEGINNING OF YEAR	<u>2,884,819</u>		<u>2,884,819</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,948,693</u>	<u>\$ 10,286</u>	<u>\$ 2,958,979</u>

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
Fund-raising	<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

STATEMENTS OF CASH FLOWS

	For the Year Ended	
	March 31,	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 74,160	(\$ 18,841)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	697	1,103
Gain on sale of investments	(136,904)	(134,860)
Unrealized (gain) loss on investments	(121,979)	59,029
Stock donation received	(6,170)	(2,587)
Loss on disposal of assets		2,245
Decrease in:		
Accrued interest	5,075	4,482
Increase (decrease) in:		
Bank overdraft		(177,758)
Accounts payable	36	(260)
Net Cash Used In Operating Activities	<u>(185,085)</u>	<u>(267,447)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(676,599)	(581,479)
Proceeds from sale of investments	580,152	1,067,422
Purchases of equipment	<u> </u>	<u>(3,882)</u>
Net Cash Provided By (Used In) Investing Activities	<u>(96,477)</u>	<u>482,061</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(281,532)	214,614
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>606,099</u>	<u>391,485</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 324,567</u>	<u>\$ 606,099</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, 2007**

	<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>Fund-raising</u>	<u>Total</u>	
Research grants	\$ 788,010		\$ 788,010				\$ 788,010
Salaries	29,750	\$ 31,450	61,200	\$ 11,750	\$ 2,550	\$ 14,300	75,500
Clerical support	3,240	3,349	6,589	24	263	287	6,876
Payroll tax	2,759	2,766	5,525	1,005	229	1,234	6,759
Health insurance	4,771	5,839	10,610	6,973	416	7,389	17,999
Rent/parking	6,865	7,400	14,265	1,589	995	2,584	16,849
Telephone	1,468	2,063	3,531	236	75	311	3,842
Insurance	1,184	2,039	3,223	1,787	466	2,253	5,476
Investment fees				19,716		19,716	19,716
Advertising	72	5,258	5,330		4,948	4,948	10,278
Administration	4,120	6,629	10,749	7,194	4,552	11,746	22,495
Professional fees	13,313	2,400	15,713	2,013	375	2,388	18,101
Directories		3,699	3,699		284	284	3,983
Depreciation	140	487	627	35	35	70	697
Recognition	2,375	152	2,527	893		893	3,420
Professional meetings	3,315	1,603	4,918	29		29	4,947
Dues and subscriptions		346	346	127	415	542	888
Printing	3,238	3,583	6,821	163	148	311	7,132
Board meetings	1,442	84	1,526	127	15	142	1,668
	<u>\$ 866,062</u>	<u>\$ 79,147</u>	<u>\$ 945,209</u>	<u>\$ 53,661</u>	<u>\$ 15,766</u>	<u>\$ 69,427</u>	<u>\$ 1,014,636</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, 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>Fund-raising</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

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2007 AND 2006

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, 2007 and 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. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

Concentration of Credit Risk – Cash

At March 31, 2007 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, 2007 AND 2006**

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. Accordingly, no provision for income taxes is included in the accompanying financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 2 – Investments

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

	March 31,	
	2007	2006
U.S. Treasury Notes	\$ 298,462	\$ 248,965
Corporate bonds and notes	350,104	258,706
Common stocks	<u>1,982,867</u>	<u>1,762,262</u>
	<u>\$ 2,631,433</u>	<u>\$ 2,269,933</u>

NOTE 3 – Equipment

Equipment consists of the following:

	March 31,	
	2007	2006
Computer equipment	\$ 8,806	\$ 8,806
Less accumulated depreciation	<u>(6,320)</u>	<u>(5,623)</u>
	<u>\$ 2,486</u>	<u>\$ 3,183</u>

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007 AND 2006**

NOTE 4 – 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>	
2008	\$ 16,700
2009	17,167
2010	16,426
2011	<u>14,814</u>
	<u>\$ 65,107</u>

Rent expense for the years ended March 31, 2007 and 2006 was \$18,091 and \$10,147, respectively.