



**FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

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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, 2008 and 2007, 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, 2008 and 2007, 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
July 8, 2008

ARTHRITIS NATIONAL RESEARCH FOUNDATION
STATEMENTS OF FINANCIAL POSITION

	March 31,	
	2008	2007
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 606,600	\$ 324,567
Accrued interest receivable	9,831	5,430
Investments	2,239,127	2,631,433
Note receivable	56,415	
Equipment	1,649	2,486
TOTAL ASSETS	\$ 2,913,622	\$ 2,963,916
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 5,113	\$ 4,937
COMMITMENTS (Note 6)		
NET ASSETS		
Unrestricted		
Undesignated	2,766,617	2,948,693
Board designated endowment	131,606	
Total unrestricted	2,898,223	2,948,693
Permanently restricted	10,286	10,286
	2,908,509	2,958,979
TOTAL LIABILITIES AND NET ASSETS	\$ 2,913,622	\$ 2,963,916

The accompanying notes are an integral part of these financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Public support			
Contributions and bequests	\$ 892,768		\$ 892,768
Total Public Support	<u>892,768</u>		<u>892,768</u>
Investment return			
Interest income	40,316		40,316
Dividend income	34,632		34,632
Gain on sale of investments	182,031		182,031
Unrealized loss on investments	(278,822)		(278,822)
Total Investment Return	<u>(21,843)</u>		<u>(21,843)</u>
TOTAL SUPPORT AND REVENUE	<u>870,925</u>		<u>870,925</u>
EXPENSES			
Program Services			
Research	747,001		747,001
Education	93,216		93,216
Total Program Services	<u>840,217</u>		<u>840,217</u>
Supporting Services			
Management and general	53,489		53,489
Fund-raising	27,689		27,689
Total Supporting Services	<u>81,178</u>		<u>81,178</u>
TOTAL EXPENSES	<u>921,395</u>		<u>921,395</u>
CHANGE IN NET ASSETS	(50,470)		(50,470)
NET ASSETS AT BEGINNING OF YEAR	<u>2,948,693</u>	\$ 10,286	<u>2,958,979</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,898,223</u>	<u>\$ 10,286</u>	<u>\$ 2,908,509</u>

The accompanying notes are an integral part of these financial 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>
Investment return			
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 Investment Return	<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> </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> </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 financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

STATEMENTS OF CASH FLOWS

	For the Year Ended March 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(\$ 50,470)	\$ 74,160
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	837	697
Gain on sale of investments	(182,031)	(136,904)
Unrealized (gain) loss on investments	278,822	(121,979)
Stock donation received	(10,114)	(6,170)
(Increase) decrease in:		
Accrued interest	(4,401)	5,075
Increase in:		
Accounts payable	176	36
Net Cash Provided By (Used In) Operating Activities	32,819	(185,085)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(449,615)	(676,599)
Proceeds from sale of investments	755,244	580,152
Issuance of note receivable	(56,415)	—
Net Cash Provided By (Used In) Investing Activities	249,214	(96,447)
NET CHANGE IN CASH AND CASH EQUIVALENTS	282,033	(281,532)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	324,567	606,099
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 606,600	\$ 324,567

The accompanying notes are an integral part of these financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2008**

	<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	\$ 649,405		\$ 649,405				\$ 649,405
Salaries	26,692	\$ 35,754	62,446	\$ 13,975	\$ 4,913	\$ 18,888	81,334
Clerical support	2,854	3,954	6,808	847	546	1,393	8,201
Payroll tax	2,581	3,045	5,626	1,160	430	1,590	7,216
Health insurance	3,614	4,819	8,433	1,022	664	1,686	10,119
Rent/parking	5,727	8,890	14,617	1,937	1,447	3,384	18,001
Telephone	1,403	2,201	3,604	243	110	353	3,957
Insurance	1,366	805	2,171	1,569	999	2,568	4,739
Investment fees				20,358		20,358	20,358
Advertising	1,628	12,481	14,109		4,799	4,799	18,908
Administration	2,626	14,817	17,443	9,406	9,926	19,332	36,775
Professional fees	19,425	1,625	21,050	2,375	2,375	4,750	25,800
Directories		2,918	2,918		194	194	3,112
Depreciation	167	586	753	42	42	84	837
Recognition	1,628	46	1,674	217	46	263	1,937
Professional meetings	25,848		25,848				25,848
Dues and subscriptions	99	771	870	225	970	1,195	2,065
Printing	1,456	332	1,788		174	174	1,962
Board meetings	482	172	654	113	54	167	821
	<u>\$ 747,001</u>	<u>\$ 93,216</u>	<u>\$ 840,217</u>	<u>\$ 53,489</u>	<u>\$ 27,689</u>	<u>\$ 81,178</u>	<u>\$ 921,395</u>

The accompanying notes are an integral part of these financial 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 financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2008 AND 2007

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.

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 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, 2008 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, 2008 AND 2007**

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 capitalized 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, 2008 AND 2007**

NOTE 2 – Investments

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

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
U.S. Treasury Notes		\$ 298,462
Corporate bonds and notes	\$ 557,161	350,104
Common stocks	<u>1,681,966</u>	<u>1,982,867</u>
	<u>\$ 2,239,127</u>	<u>\$ 2,631,433</u>

NOTE 3 – Note Receivable

The note receivable is due from the trust of a donor, with interest due at 5%. The note will be paid in full to the Foundation on the date of sale of certain assets of the donor's estate. The outstanding balance of the note at December 31, 2007 is \$56,415.

NOTE 4 – Equipment

Equipment consists of the following:

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
Computer equipment	\$ 8,806	\$ 8,806
Less accumulated depreciation	(7,157)	(6,320)
	<u>\$ 1,649</u>	<u>\$ 2,486</u>

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

NOTE 5 – Restrictions on Net Assets

Net assets were restricted by donors or designated by the Foundation as follows:

	March 31,	
	2008	2007
Unrestricted net assets:		
Undesignated	\$ 2,766,617	\$ 2,948,693
Board designated endowment	131,606	
Total Unrestricted Net Assets	2,898,223	2,948,693
Permanently restricted net assets:		
Endowment fund	10,286	10,286
Total Permanently Restricted Net Assets	10,286	10,286
Total Net Assets	\$ 2,908,509	\$ 2,958,979

NOTE 6 – 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:

Year Ending March 31,	
2009	\$ 16,352
2010	16,155
2011	14,814
	\$ 47,321

Rent expense for the years ended March 31, 2008 and 2007 was \$19,456 and \$18,091, respectively.