



**FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008**

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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, 2009 and 2008, 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.

As discussed in Notes 1 and 3 to the financial statements, the Foundation adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as of January 1, 2008, for fair value measurements of all financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis.

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, 2009 and 2008, 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 15, 2009

ARTHRITIS NATIONAL RESEARCH FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	ASSETS	
	March 31,	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 889,899	\$ 606,600
Accrued interest receivable	8,014	9,831
Investments	2,184,147	2,239,127
Note receivable	56,415	56,415
Equipment	<u>913</u>	<u>1,649</u>
TOTAL ASSETS	<u>\$ 3,139,388</u>	<u>\$ 2,913,622</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	<u>\$ 3,841</u>	<u>\$ 5,113</u>
COMMITMENTS (Note 7)		
NET ASSETS		
Unrestricted		
Undesignated	2,993,655	2,766,617
Board designated endowment	<u>131,606</u>	<u>131,606</u>
Total unrestricted	3,125,261	2,898,223
Permanently restricted	<u>10,286</u>	<u>10,286</u>
	<u>3,135,547</u>	<u>2,908,509</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,139,388</u>	<u>\$ 2,913,622</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, 2009**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Public support			
Contributions and bequests	\$ 2,042,938		\$ 2,042,938
Total Public Support	<u>2,042,938</u>		<u>2,042,938</u>
Investment return			
Interest income	40,764		40,764
Dividend income	35,441		35,441
Loss on sale of investments	(69,196)		(69,196)
Unrealized loss on investments	(643,891)		(643,891)
Total Investment Return	<u>(636,882)</u>		<u>(636,882)</u>
TOTAL SUPPORT AND REVENUE	<u>1,406,056</u>		<u>1,406,056</u>
EXPENSES			
Program Services			
Research	967,929		967,929
Education	120,618		120,618
Total Program Services	<u>1,088,547</u>		<u>1,088,547</u>
Supporting Services			
Management and general	72,307		72,307
Fund-raising	18,164		18,164
Total Supporting Services	<u>90,471</u>		<u>90,471</u>
TOTAL EXPENSES	<u>1,179,018</u>		<u>1,179,018</u>
CHANGE IN NET ASSETS	227,038		227,038
NET ASSETS AT BEGINNING OF YEAR	<u>2,898,223</u>	\$ 10,286	<u>2,908,509</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,125,261</u>	<u>\$ 10,286</u>	<u>\$ 3,135,547</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, 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

STATEMENTS OF CASH FLOWS

	For the Year Ended March 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 227,038	(\$ 50,470)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	736	837
(Gain) loss on sale of investments	69,196	(182,031)
Unrealized loss on investments	643,891	278,822
Stock donation received	(231,230)	(10,114)
(Increase) decrease in:		
Accrued interest receivable	1,817	(4,401)
Increase (decrease) in:		
Accounts payable	(1,272)	176
Net Cash Provided By Operating Activities	710,176	32,819
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,006,796)	(449,615)
Proceeds from sale of investments	579,919	755,244
Issuance of note receivable	_____	(56,415)
Net Cash Provided By (Used In) Investing Activities	(426,877)	249,214
NET CHANGE IN CASH AND CASH EQUIVALENTS	283,299	282,033
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	606,600	324,567
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 889,899	\$ 606,600

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, 2009**

	<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	\$ 891,225		\$ 891,225				\$ 891,225
Salaries	27,613	\$ 34,625	62,238	\$ 21,050	\$ 4,213	\$ 25,263	87,501
Clerical support	2,831	4,376	7,207	823	584	1,407	8,614
Payroll tax	2,528	3,084	5,612	1,680	385	2,065	7,677
Health insurance	3,986	5,078	9,064	1,535	621	2,156	11,220
Rent/parking	6,063	9,367	15,430	2,903	820	3,723	19,153
Telephone	1,091	1,798	2,889	374	37	411	3,300
Insurance	260	260	520	4,437	50	4,487	5,007
Investment fees				20,099		20,099	20,099
Advertising	500	27,859	28,359		1,900	1,900	30,259
Administration	2,038	27,813	29,851	13,120	8,271	21,391	51,242
Professional fees	13,400	1,000	14,400	5,500	500	6,000	20,400
Directories		2,408	2,408		105	105	2,513
Depreciation	147	515	662	37	37	74	736
Recognition	1,365	167	1,532	289	187	476	2,008
Professional meetings	10,020		10,020				10,020
Dues and subscriptions		1,297	1,297	30	333	363	1,660
Printing	3,337	584	3,921	159	121	280	4,201
Board meetings	1,525	387	1,912	271		271	2,183
	<u>\$ 967,929</u>	<u>\$ 120,618</u>	<u>\$1,088,547</u>	<u>\$ 72,307</u>	<u>\$ 18,164</u>	<u>\$ 90,471</u>	<u>\$ 1,179,018</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, 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

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008**

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. At March 31, 2009 and 2008, 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 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.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2009 AND 2008

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk – Cash

At March 31, 2009 and throughout the year, the Foundation had cash balances in its financial institutions in excess of federally insured limits. Given the current economic environment and risk in the banking industry, there is a risk that these deposits may not be readily available or may not be covered by insurance. Subsequent to year end, the Foundation has transferred funds in order to maintain balances under the federally insured limits.

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. The current economic environment has increased the degree of uncertainty in those estimates and assumptions.

Fair Value of Financial Instruments

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. While SFAS No. 157 did not impact the Foundation's valuation methods, it expanded disclosures of assets and liabilities that are recorded at fair value. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Foundation adopted this standard in fiscal year 2009, and the adoption did not impact the statement of financial position or the change in net assets. On April 1, 2010, the Foundation will be required to implement the previously-deferred provisions of SFAS No. 157 for nonfinancial long-lived assets or asset groups measured at fair value for an impairment assessment under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Foundation does not believe that the remaining provisions will have an impact on the financial position or changes in net assets when they are implemented.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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. The valuation of marketable securities is based upon quoted market prices. Unrealized and realized 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.

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 requires companies to recognize the effect of income tax positions only if those positions are more likely than not of being sustained.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

On December 30, 2008, FASB Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, deferred the effective date of FIN 48 for certain nonpublic enterprises, including pass-through entities and nonprofit corporations, for annual financial statements for periods beginning on or after December 15, 2008. The deferral is to provide the FASB time to develop guidance on the application of FIN 48 by nonprofit entities, such as the Foundation. As a result, the Foundation has deferred the adoption of FIN 48. Management cannot determine at this time the impact, if any, FIN 48 may have on the Foundation's result of operations.

NOTE 2 – Investments

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

	March 31,	
	2009	2008
Corporate bonds and notes	\$ 400,286	\$ 557,161
Common stocks	990,113	1,681,966
Mutual funds	793,748	
	<u>\$ 2,184,147</u>	<u>\$ 2,239,127</u>

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008**

NOTE 3 – Fair Value Hierarchy

The Foundation adopted SFAS 157 on April 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at March 31, 2009:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Assets at</u>	<u>Quoted</u>	<u>Significant</u>	<u>Significant</u>
	<u>Fair Value</u>	<u>Prices in</u>	<u>Other</u>	<u>Unobservable</u>
	<u>Assets at</u>	<u>Active</u>	<u>Observable</u>	<u>Inputs</u>
	<u>Fair Value</u>	<u>Markets for</u>	<u>Inputs</u>	<u>Inputs</u>
	<u>Fair Value</u>	<u>Identical</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
	<u>Assets at</u>	<u>Assets</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets:				
Securities owned				
Corporate bonds				
and notes	\$ 400,286	\$ 400,286	—	—
Common stocks	990,113	990,113	—	—
Mutual funds	793,748	793,748	—	—
	<u>793,748</u>	<u>793,748</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 2,184,147</u>	<u>\$ 2,184,147</u>	<u>—</u>	<u>—</u>

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008**

NOTE 4 – Note Receivable

The note receivable is due from the trust of a donor, with interest due annually 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 March 31, 2009 and 2008 is \$56,415.

NOTE 5 – Equipment

Equipment consists of the following:

	March 31,	
	2009	2008
Computer equipment	\$ 8,806	\$ 8,806
Less accumulated depreciation	(7,893)	(7,157)
	\$ 913	\$ 1,649

NOTE 6 – Restrictions on Net Assets

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

	March 31,	
	2009	2008
Unrestricted net assets:		
Undesignated	\$ 2,993,655	\$ 2,766,617
Board designated endowment	131,606	131,606
Total Unrestricted Net Assets	3,125,261	2,898,223
Permanently restricted net assets:		
Endowment fund	10,286	10,286
Total Permanently Restricted Net Assets	10,286	10,286
Total Net Assets	\$ 3,135,547	\$ 2,908,509

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2009 AND 2008**

NOTE 7 – 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>	
2010	\$ 16,155
2011	<u>14,814</u>
	<u>\$ 30,969</u>

Rent expense for the years ended March 31, 2009 and 2008 was \$21,479 and \$19,456, respectively.