

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**FINANCIAL STATEMENTS  
MARCH 31, 2010 AND 2009**

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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, 2010 and 2009, 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, 2010 and 2009, 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.

A handwritten signature in cursive script that reads "Windes &amp; McClaughry".

Long Beach, California  
August 26, 2010

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

	<b>ASSETS</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 603,383	\$ 889,899
Accrued interest receivable	8,014	8,014
Investments	4,996,384	2,184,147
Note receivable	56,415	56,415
Equipment	<u>                    </u>	<u>913</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,664,196</u></b>	<b><u>\$ 3,139,388</u></b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	<u>\$ 4,846</u>	<u>\$ 3,841</u>
<b>COMMITMENTS (Note 6)</b>		
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	3,595,398	2,993,655
Board designated endowment	<u>2,053,666</u>	<u>131,606</u>
Total Unrestricted	5,649,064	3,125,261
Permanently restricted	<u>10,286</u>	<u>10,286</u>
	<u>5,659,350</u>	<u>3,135,547</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 5,664,196</u></b>	<b><u>\$ 3,139,388</u></b>

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

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2010**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Public support			
Contributions and bequests	\$ 3,055,844		\$ 3,055,844
Total Public Support	<u>3,055,844</u>		<u>3,055,844</u>
Investment return			
Interest income	27,840		27,840
Dividend income	39,406		39,406
Gain on sale of investments	84,061		84,061
Unrealized gain on investments	<u>565,959</u>		<u>565,959</u>
Total Investment Return	<u>717,266</u>		<u>717,266</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>3,773,110</u>		<u>3,773,110</u>
<b>EXPENSES</b>			
Program Services			
Research	1,010,854		1,010,854
Education	<u>146,611</u>		<u>146,611</u>
Total Program Services	<u>1,157,465</u>		<u>1,157,465</u>
Supporting Services			
Management and general	70,218		70,218
Fund-raising	<u>21,624</u>		<u>21,624</u>
Total Supporting Services	<u>91,842</u>		<u>91,842</u>
<b>TOTAL EXPENSES</b>	<u>1,249,307</u>		<u>1,249,307</u>
<b>CHANGE IN NET ASSETS</b>	2,523,803		2,523,803
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>3,125,261</u>	\$ 10,286	<u>3,135,547</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 5,649,064</u>	<u>\$ 10,286</u>	<u>\$ 5,659,350</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>
<b>SUPPORT AND REVENUE</b>			
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>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>1,406,056</u>		<u>1,406,056</u>
<b>EXPENSES</b>			
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>
<b>TOTAL EXPENSES</b>	<u>1,179,018</u>		<u>1,179,018</u>
<b>CHANGE IN NET ASSETS</b>	227,038		227,038
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>2,898,223</u>	\$ 10,286	<u>2,908,509</u>
<b>NET ASSETS AT END OF YEAR</b>	<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**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended March 31,</b>	
	<u><b>2010</b></u>	<u><b>2009</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,523,803	\$ 227,038
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	913	736
(Gain) loss on sale of investments	( 84,061)	69,196
Unrealized (gain) loss on investments	( 565,959)	643,891
Stock donation received	( 269,100)	( 231,230)
Decrease in:		
Accrued interest receivable		1,817
Increase (decrease) in:		
Accounts payable	<u>1,005</u>	<u>( 1,272)</u>
Net Cash Provided By Operating Activities	<u>1,606,601</u>	<u>710,176</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	( 5,744,330)	( 1,006,796)
Proceeds from sale of investments	<u>3,851,213</u>	<u>579,919</u>
Net Cash Used In Investing Activities	<u>( 1,893,117)</u>	<u>( 426,877)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	( 286,516)	283,299
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>889,899</u>	<u>606,600</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 603,383</u>	<u>\$ 889,899</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, 2010**

	<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	\$ 921,000		\$ 921,000				\$ 921,000
Education program		\$ 15,711	15,711		\$ 1,423	\$ 1,423	17,134
Salaries	30,633	40,517	71,150	\$ 13,424	5,425	18,849	89,999
Clerical support	9,474	9,679	19,153	1,519	1,310	2,829	21,982
Payroll tax	3,389	4,098	7,487	1,133	546	1,679	9,166
Health insurance	4,531	5,837	10,368	1,686	816	2,502	12,870
Office rent/ parking	4,485	10,027	14,512	3,251	1,173	4,424	18,936
Telephone and internet	591	2,756	3,347	805	37	842	4,189
Website	5,984	13,108	19,092	211	1,410	1,621	20,713
Insurance	324	529	853	4,139	48	4,187	5,040
Investment fees				18,278		18,278	18,278
Advertising		10,015	10,015				10,015
Administration	2,077	20,449	22,526	16,448	5,045	21,493	44,019
Professional fees	14,800	1,835	16,635	8,443	3,075	11,518	28,153
Directories		1,759	1,759		71	71	1,830
Depreciation	183	639	822	46	46	92	914
Recognition	1,283	4,408	5,691	300	811	1,111	6,802
Professional meetings	6,550		6,550				6,550
Dues and subscriptions		1,120	1,120	332	203	535	1,655
Printing	1,265	3,990	5,255	26	185	211	5,466
Board meetings	4,285	134	4,419	177		177	4,596
	<u>\$ 1,010,854</u>	<u>\$ 146,611</u>	<u>\$ 1,157,465</u>	<u>\$ 70,218</u>	<u>\$ 21,624</u>	<u>\$ 91,842</u>	<u>\$ 1,249,307</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, 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
Office rent/parking	6,063	9,367	15,430	2,903	820	3,723	19,153
Telephone and internet	427	1,391	1,818	374	13	387	2,205
Website	664	407	1,071		24	24	1,095
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

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2010 AND 2009

#### 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 provide financial support for the study of prevention, treatment, and cure of arthritis and other rheumatic diseases.

##### *Basis of Presentation of Financial Statements*

In June 2009, the Financial Accounting Standards Board (FASB) established the Accounting Standards Codification (Codification or ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with US Generally Accepted Accounting Principles (GAAP). Existing GAAP is not intended to be changed as a result of the Codification and, accordingly, the change did not impact the Foundation's financial statements. The ASC does change the way the guidance is organized and presented.

The Foundation applies FASB ASC Subtopic 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. Under ASC Subtopic 958-205, 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, 2010 and 2009, the Foundation had no temporarily restricted net assets.

##### *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.

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

At March 31, 2010 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 covered by insurance.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2010 AND 2009**

**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 an original maturity of three months or less to be cash equivalents.

*Fair Value of Financial Instruments*

On April 1, 2008, the Foundation adopted the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures* 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. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. (See Note 3.)

*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.

The Foundation's investments are exposed to various risks, such as market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

*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.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2010 AND 2009**

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

***Contributions***

The Foundation accounts for contributions using FASB ASC Topic 720, *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.

***Legacies and Bequests***

The Foundation has been named a beneficiary in a number of bequests. Bequests are not recognized as support until all of the following conditions are met: the demise of the testator, the amount of the bequest is known, the Foundation is certain that, based on the estate's net assets, the amount bequeathed is realizable, and the probate court has declared the will valid.

***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, 2010 AND 2009**

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

*Income Taxes (Continued)*

The Foundation recognizes the financial statement benefit of tax positions, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Foundation is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal purposes is three years and for state purposes is four years.

*Subsequent Events*

The Foundation's management has evaluated subsequent events from the statement of position date through August 26, 2010, the date the financial statements were available to be issued for the year ended March 31, 2010, and determined that there were no other items to disclose.

**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>2010</u>	<u>2009</u>
Mutual Funds		
Large Blend	\$ 216,601	
Small Blend	112,187	
Mid-Cap Blend	111,937	
Foreign Large Blend	104,274	\$ 582
Money Market Funds	361,559	793,166
Other Investments		
Domestic Stock	1,960,906	990,113
Corporate Bonds	764,135	400,286
Municipal Bonds	442,245	
Certificates of Deposit	922,540	
	<u>\$ 4,996,384</u>	<u>\$ 2,184,147</u>

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2010 AND 2009**

**NOTE 3 – Fair Value Hierarchy**

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Foundation’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Foundation groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. 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 following table presents assets that are measured at fair value on a recurring basis at March 31, 2010 and 2009:

<u>March 31, 2010</u>	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Mutual Funds				
Large Blend	\$ 216,601	\$ 216,601		
Small Blend	112,187	112,187		
Mid-Cap Blend	111,937	111,937		
Foreign Large Blend	104,274	104,274		
Money Market Funds	361,559	361,559		
Other Investments				
Domestic Stock	1,960,906	1,960,906		
Corporate Bonds	764,135		\$ 764,135	
Municipal Bonds	442,245		442,245	
Certificates of Deposit	922,540		922,540	
	<u>\$ 4,996,384</u>	<u>\$ 2,867,464</u>	<u>\$ 2,128,920</u>	<u>None</u>

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2010 AND 2009**

**NOTE 3 – Fair Value Hierarchy (Continued)**

<u>March 31, 2009</u>	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Mutual Funds				
Foreign Large Blend	\$ 582	\$ 582		
Money Market Funds	793,166	793,166		
Other Investments				
Domestic Stock	990,113	990,113		
Corporate Bonds	<u>400,286</u>		\$ 400,286	
	<u>\$ 2,184,147</u>	<u>\$ 1,783,861</u>	<u>\$ 400,286</u>	<u>None</u>

**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, 2010 and 2009 is \$56,415.

**NOTE 5 – Restrictions on Net Assets**

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

	<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
Unrestricted net assets:		
Undesignated	\$ 3,595,398	\$ 2,993,655
Board designated endowment	<u>2,053,666</u>	<u>131,606</u>
Total Unrestricted Net Assets	<u>5,649,064</u>	<u>3,125,261</u>
Permanently restricted net assets:		
Endowment fund	<u>10,286</u>	<u>10,286</u>
Total Permanently Restricted Net Assets	<u>10,286</u>	<u>10,286</u>
Total Net Assets	<u>\$ 5,659,350</u>	<u>\$ 3,135,547</u>

## ARTHRITIS NATIONAL RESEARCH FOUNDATION

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2010 AND 2009

#### **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 payments for the year ended March 31, 2011 are \$14,814. Office and equipment rental expense for the years ended March 31, 2010 and 2009 was \$20,521 and \$21,479, respectively.

#### **NOTE 7 – Endowment Funds**

The Foundation's endowment consists of one donor restricted contribution of \$10,286 and a board-designated fund established to generate return which is sufficient to meet the current and expected future financial requirements of the Foundation. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's management and investment of donor-endowment funds is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation has interpreted California's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of the 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 the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation's management in a manner consistent with the standard of prudence prescribed by UPMIFA. Board-designated endowment funds are reported as unrestricted net assets.

#### ***Spending Policy for Endowment Funds***

The income generated by the board-designated endowment fund, including dividends, interest and realized gains, may be appropriated annually to fund general operations and grant making. Earnings in excess of grant expenditures and operations may be used for expanding knowledge and support of the Foundation.



**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2010 AND 2009**

**NOTE 7 – Endowment Funds (Continued)**

*Investment Policy for Endowment Funds*

The Foundation utilizes investment policies for endowment assets that attempt to provide a predictable stream of funding of its programs and operations while seeking to maintain the purchasing power of the endowment assets. Specifically, over a market cycle of three to five years, the total return should exceed the Consumer Price Index by 4% annually and should average 6% annually or better. The Foundation targets a diversified asset allocation that places greater emphasis on fixed income and equity-based investments.

Net changes in endowment funds for the year ended March 31, 2010 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 131,606	None	\$ 10,286	\$ 141,892
Investment return:				
Investment income	4,977	\$ 400		5,377
Net appreciation (realized and unrealized)	37,427			37,427
Total investment return	42,404	400		42,804
Contributions	1,879,656			1,879,656
Appropriation of endowment assets for expenditure		( 400)		( 400)
Endowment net assets, end of year	<u>\$ 2,053,666</u>	<u>None</u>	<u>\$ 10,286</u>	<u>\$ 2,063,952</u>