



**FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

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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, 2011 and 2010, 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, 2011 and 2010, 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 black ink that reads "Windes & McClaughry". The signature is written in a cursive, flowing style.

Long Beach, California
August 4, 2011

ARTHRITIS NATIONAL RESEARCH FOUNDATION

STATEMENTS OF FINANCIAL POSITION

| | ASSETS | |
|---|---------------------|---------------------|
| | March 31, | |
| | 2011 | 2010 |
| ASSETS | | |
| Cash and cash equivalents | \$ 440,258 | \$ 603,383 |
| Accrued interest receivable | 8,014 | 8,014 |
| Investments | 6,720,648 | 4,996,384 |
| Note receivable | <u>56,415</u> | <u>56,415</u> |
| TOTAL ASSETS | <u>\$ 7,225,335</u> | <u>\$ 5,664,196</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | <u>\$ 5,446</u> | <u>\$ 4,846</u> |
| COMMITMENTS (Note 6) | | |
| NET ASSETS | | |
| Unrestricted | | |
| Undesignated | 4,825,358 | 3,595,398 |
| Board designated endowment | <u>2,384,245</u> | <u>2,053,666</u> |
| Total Unrestricted | 7,209,603 | 5,649,064 |
| Permanently restricted | <u>10,286</u> | <u>10,286</u> |
| | <u>7,219,889</u> | <u>5,659,350</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 7,225,335</u> | <u>\$ 5,664,196</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, 2011**

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|---------------------|
| SUPPORT AND REVENUE | | | |
| Public support | | | |
| Contributions and bequests | \$ 2,173,600 | | \$ 2,173,600 |
| Total Public Support | <u>2,173,600</u> | | <u>2,173,600</u> |
| Investment return | | | |
| Interest income | 72,671 | | 72,671 |
| Dividend income | 49,353 | | 49,353 |
| Gain on sale of investments | 54,600 | | 54,600 |
| Unrealized gain on investments | <u>536,457</u> | | <u>536,457</u> |
| Total Investment Return | <u>713,081</u> | | <u>713,081</u> |
| TOTAL SUPPORT AND REVENUE | <u>2,886,681</u> | | <u>2,886,681</u> |
| EXPENSES | | | |
| Program Services | | | |
| Research | 1,061,619 | | 1,061,619 |
| Education | <u>140,280</u> | | <u>140,280</u> |
| Total Program Services | <u>1,201,899</u> | | <u>1,201,899</u> |
| Supporting Services | | | |
| Management and general | 88,354 | | 88,354 |
| Fund-raising | <u>35,889</u> | | <u>35,889</u> |
| Total Supporting Services | <u>124,243</u> | | <u>124,243</u> |
| TOTAL EXPENSES | <u>1,326,142</u> | | <u>1,326,142</u> |
| CHANGE IN NET ASSETS | 1,560,539 | | 1,560,539 |
| NET ASSETS AT BEGINNING OF YEAR | <u>5,649,064</u> | \$ 10,286 | <u>5,659,350</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 7,209,603</u> | <u>\$ 10,286</u> | <u>\$ 7,219,889</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, 2010**

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|---------------------|
| SUPPORT AND REVENUE | | | |
| 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> |
| TOTAL SUPPORT AND REVENUE | <u>3,773,110</u> | | <u>3,773,110</u> |
| EXPENSES | | | |
| 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> |
| TOTAL EXPENSES | <u>1,249,307</u> | | <u>1,249,307</u> |
| CHANGE IN NET ASSETS | 2,523,803 | | 2,523,803 |
| NET ASSETS AT BEGINNING OF YEAR | <u>3,125,261</u> | \$ 10,286 | <u>3,135,547</u> |
| NET ASSETS AT END OF YEAR | <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

STATEMENTS OF CASH FLOWS

| | For the Year Ended March 31, | |
|--|---|---------------------|
| | <u>2011</u> | <u>2010</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,560,539 | \$ 2,523,803 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | | 913 |
| Gain on sale of investments | (54,600) | (84,061) |
| Unrealized gain on investments | (536,457) | (565,959) |
| Stock donation received | (1,046) | (269,100) |
| Increase in: | | |
| Accounts payable | <u>600</u> | <u>1,005</u> |
| Net Cash Provided By Operating Activities | <u>969,036</u> | <u>1,606,601</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (3,242,211) | (5,744,330) |
| Proceeds from sale of investments | <u>2,110,050</u> | <u>3,851,213</u> |
| Net Cash Used In Investing Activities | <u>(1,132,161)</u> | <u>(1,893,117)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (163,125) | (286,516) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>603,383</u> | <u>889,899</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 440,258</u> | <u>\$ 603,383</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, 2011**

| | <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 | \$ 975,000 | | \$ 975,000 | | | | \$ 975,000 |
| Education program | 3,840 | \$ 19,356 | 23,196 | \$ 44 | \$ 4,246 | \$ 4,290 | 27,486 |
| Salaries | 28,497 | 37,350 | 65,847 | 16,904 | 10,375 | 27,279 | 93,126 |
| Clerical support | 15,063 | 19,956 | 35,019 | 3,612 | 5,475 | 9,087 | 44,106 |
| Payroll tax | 3,634 | 4,584 | 8,218 | 1,540 | 1,241 | 2,781 | 10,999 |
| Health insurance | 4,426 | 5,826 | 10,252 | 2,112 | 1,624 | 3,736 | 13,988 |
| Office rent/ parking | 4,076 | 7,575 | 11,651 | 4,998 | 1,428 | 6,426 | 18,077 |
| Telephone and internet | 631 | 2,705 | 3,336 | 304 | 148 | 452 | 3,788 |
| Website | 3,573 | 5,892 | 9,465 | 454 | 580 | 1,034 | 10,499 |
| Insurance | 215 | 571 | 786 | 3,408 | 207 | 3,615 | 4,401 |
| Investment fees | | | | 19,933 | | 19,933 | 19,933 |
| Advertising | | 1,357 | 1,357 | | 53 | 53 | 1,410 |
| Administration | 1,582 | 27,124 | 28,706 | 22,153 | 10,036 | 32,189 | 60,895 |
| Professional fees | 8,000 | 5,000 | 13,000 | 10,801 | | 10,801 | 23,801 |
| Directories | | 1,414 | 1,414 | | 85 | 85 | 1,499 |
| Recognition | 1,219 | 189 | 1,408 | 254 | 216 | 470 | 1,878 |
| Professional meetings | 9,956 | | 9,956 | | | | 9,956 |
| Dues and subscriptions | | 877 | 877 | 100 | | 100 | 977 |
| Printing | 956 | 504 | 1,460 | 595 | 175 | 770 | 2,230 |
| Board meetings | 951 | | 951 | 1,142 | | 1,142 | 2,093 |
| | <u>\$ 1,061,619</u> | <u>\$ 140,280</u> | <u>\$ 1,201,899</u> | <u>\$ 88,354</u> | <u>\$ 35,889</u> | <u>\$ 124,243</u> | <u>\$ 1,326,142</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

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

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

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, 2011 and 2010, 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, 2011 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, 2011 AND 2010**

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

The Foundation has 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.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contributions

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 as 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, 2011 AND 2010**

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 California purposes is four years.

Contributions In-Kind

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

The Foundation recorded in-kind support for \$11,600 of auction items during the year ended March 31, 2011 as contributions and bequests on the statement of activities. There were no such contributions during the year ended March 31, 2010.

Subsequent Events

The Foundation's management has evaluated subsequent events from the statement of position date through March 4, 2011, the date the financial statements were available to be issued for the year ended March 31, 2011, and determined that there were no other items to disclose.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

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>2011</u> | <u>2010</u> |
| Mutual Funds | | |
| Large Blend | \$ 491,762 | \$ 216,601 |
| Small Blend | 272,806 | 112,187 |
| Mid-Cap Blend | 268,315 | 111,937 |
| Foreign Large Blend | 319,553 | 104,274 |
| Diversified Emerging Markets | 1,093 | |
| Money Market Funds | | 361,559 |
| Other Investments | | |
| Domestic Stock | 2,441,679 | 1,960,906 |
| Corporate Bonds | 1,083,908 | 764,135 |
| Municipal Bonds | 201,132 | 442,245 |
| Certificates of Deposit | <u>1,640,400</u> | <u>922,540</u> |
| | <u>\$ 6,720,648</u> | <u>\$ 4,996,384</u> |

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

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, 2011 and 2010:

| <u>March 31, 2011</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 | \$ 491,762 | \$ 491,762 | | |
| Small Blend | 272,806 | 272,806 | | |
| Mid-Cap Blend | 268,315 | 268,315 | | |
| Foreign Large Blend | 319,553 | 319,553 | | |
| Diversified Emerging Markets | 1,093 | 1,093 | | |
| Other Investments | | | | |
| Domestic Stocks | 2,441,679 | 2,441,679 | | |
| Corporate Bonds | 1,083,908 | | \$ 1,083,908 | |
| Municipal Bonds | 201,132 | | 201,132 | |
| Certificates of Deposit | 1,640,400 | | 1,640,400 | |
| | <u>\$ 6,720,648</u> | <u>\$ 3,795,208</u> | <u>\$ 2,925,440</u> | <u>None</u> |

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

NOTE 3 – Fair Value Hierarchy (Continued)

| <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 Stocks | 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> |

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, 2011 and 2010 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>2011</u> | <u>2010</u> |
| Unrestricted net assets: | | |
| Undesignated | \$ 4,825,358 | \$ 3,595,398 |
| Board designated endowment | 2,384,245 | 2,053,666 |
| Total Unrestricted Net Assets | <u>7,209,603</u> | <u>5,649,064</u> |
| Permanently restricted net assets: | | |
| Endowment fund | 10,286 | 10,286 |
| Total Permanently Restricted Net Assets | <u>10,286</u> | <u>10,286</u> |
| Total Net Assets | <u>\$ 7,219,889</u> | <u>\$ 5,659,350</u> |

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

NOTE 6 – Commitments

The Foundation leases commercial office space and office equipment under various terms through 2017 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. Office and equipment rental expense for the years ended March 31, 2011 and 2010 was \$19,729 and \$20,521, respectively.

Future minimum lease payments under these operating lease agreements are as follows:

| <u>Year Ending March 31,</u> | |
|----------------------------------|------------------|
| 2012 | \$ 14,483 |
| 2013 | 17,172 |
| 2014 | 17,595 |
| 2015 | 18,031 |
| 2016 | 17,460 |
| Thereafter | <u>2,640</u> |
| | <u>\$ 87,381</u> |

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.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

NOTE 7 – Endowment Funds (Continued)

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.

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 at least 6% annually. The Foundation targets a diversified asset allocation that places greater emphasis on fixed income and equity-based investments.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

NOTE 7 – Endowment Funds (Continued)

Net changes in endowment funds for the years ended March 31, 2011 and 2010 were as follows:

| <u>March 31, 2011</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | <u>\$ 2,053,666</u> | <u>None</u> | <u>\$ 10,286</u> | <u>\$ 2,063,952</u> |
| Investment return: | | | | |
| Investment income | 38,221 | \$ 191 | | 38,412 |
| Net appreciation (realized and unrealized) | <u>292,358</u> | <u> </u> | | <u>292,358</u> |
| Total investment return | <u>330,579</u> | <u>191</u> | | <u>330,770</u> |
| Appropriation of endowment assets for expenditure | <u> </u> | <u>(191)</u> | <u> </u> | <u>(191)</u> |
| Endowment net assets, end of year | <u>\$ 2,384,245</u> | <u>None</u> | <u>\$ 10,286</u> | <u>\$ 2,394,531</u> |

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2011 AND 2010**

NOTE 7 – Endowment Funds (Continued)

| <u>March 31, 2010</u> | <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) | <u>37,427</u> | <u> </u> | | <u>37,427</u> |
| Total investment return | <u>42,404</u> | <u>400</u> | | <u>42,804</u> |
| Contributions | <u>1,879,656</u> | | | <u>1,879,656</u> |
| Appropriation of endowment assets for expenditure | <u> </u> | (400) | <u> </u> | (400) |
| Endowment net assets, end of year | <u>\$ 2,053,666</u> | <u>None</u> | <u>\$ 10,286</u> | <u>\$ 2,063,952</u> |