

Audited Financial Statements



Arthritis National Research Foundation

**As of and for the Years Ended
March 31, 2019 and 2018**

*Financial Statements
With Independent Auditors' Report*



Arthritis National Research Foundation

As of and for the Years Ended March 31, 2019 and 2018

ARTHRITIS NATIONAL RESEARCH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Arthritis National Research Foundation

We have audited the accompanying financial statements of the Arthritis National Research Foundation, which comprise the statements of financial position as of March 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years ended March 31, 2019 and 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arthritis National Research Foundation as of March 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years ended March 31, 2019 and 2018, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, Arthritis National Research Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Haskell & White LLP

HASKELL & WHITE LLP

Irvine, California
January 17, 2020

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statements of Financial Position
As of March 31, 2019 and 2018**

| | 2019 | 2018 |
|-----------------------------------------------|--------------|--------------|
| ASSETS | | |
| Assets | | |
| Cash and cash equivalents | \$ 903,511 | \$ 1,533,383 |
| Investments (Note 2) | 8,007,645 | 7,877,610 |
| Pledges receivable | - | 88,265 |
| Note and accrued interest receivable | 84,625 | 84,625 |
| Other assets | 7,973 | 2,473 |
| Total assets | \$ 9,003,754 | \$ 9,586,356 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 37,323 | \$ 44,291 |
| Total liabilities | 37,323 | 44,291 |
| Commitments and contingencies (Note 5) | | |
| Net assets | | |
| Without Donor Restrictions | | |
| Undesignated | 4,453,751 | 4,996,230 |
| Board-designated funds | 4,076,290 | 4,109,445 |
| Total without donor restrictions | 8,530,041 | 9,105,675 |
| With Donor Restrictions | 436,390 | 436,390 |
| Total net assets | 8,966,431 | 9,542,065 |
| Total liabilities and net assets | \$ 9,003,754 | \$ 9,586,356 |

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statement of Activities
For the Year Ended March 31, 2019**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--------------------------------------|-------------------------------------------|----------------------------------------|---------------------|
| Support and revenue | | | |
| Contributions and bequests | \$ 1,391,531 | \$ - | \$ 1,391,531 |
| Investment income, net (Note 2) | 367,086 | - | 367,086 |
| | <u>1,758,617</u> | <u>-</u> | <u>1,758,617</u> |
| Expenses | | | |
| Program services: | | | |
| Research | 1,828,753 | - | 1,828,753 |
| Education | 250,165 | - | 250,165 |
| | <u>2,078,918</u> | <u>-</u> | <u>2,078,918</u> |
| Supporting activities: | | | |
| Management and general | 144,304 | - | 144,304 |
| Fundraising | 111,029 | - | 111,029 |
| | <u>255,333</u> | <u>-</u> | <u>255,333</u> |
| Total expenses | <u>2,334,251</u> | <u>-</u> | <u>2,334,251</u> |
| Change in net assets | (575,634) | - | (575,634) |
| Net assets, beginning of year | <u>9,105,675</u> | <u>436,390</u> | <u>9,542,065</u> |
| Net assets, end of year | <u>\$ 8,530,041</u> | <u>\$ 436,390</u> | <u>\$ 8,966,431</u> |

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statement of Activities
For the Year Ended March 31, 2018**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--------------------------------------|-------------------------------------------|----------------------------------------|---------------------|
| Support and revenue | | | |
| Contributions and bequests | \$ 2,564,271 | \$ - | \$ 2,564,271 |
| Investment income, net (Note 2) | <u>777,848</u> | <u>-</u> | <u>777,848</u> |
| Total support and revenue | <u>3,342,119</u> | <u>-</u> | <u>3,342,119</u> |
| Expenses | | | |
| Program services: | | | |
| Research | 1,537,187 | - | 1,537,187 |
| Education | <u>236,428</u> | <u>-</u> | <u>236,428</u> |
| Total program services | <u>1,773,615</u> | <u>-</u> | <u>1,773,615</u> |
| Supporting activities: | | | |
| Management and general | 115,912 | - | 115,912 |
| Fundraising | <u>120,016</u> | <u>-</u> | <u>120,016</u> |
| Total supporting activities | <u>235,928</u> | <u>-</u> | <u>235,928</u> |
| Total expenses | <u>2,009,543</u> | <u>-</u> | <u>2,009,543</u> |
| Change in net assets | 1,332,576 | - | 1,332,576 |
| Net assets, beginning of year | <u>7,773,099</u> | <u>436,390</u> | <u>8,209,489</u> |
| Net assets, end of year | <u>\$ 9,105,675</u> | <u>\$ 436,390</u> | <u>\$ 9,542,065</u> |

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statement of Functional Expenses
For the Year Ended March 31, 2019**

| | Program Services | | | Supporting Activities | | | Total Expenses |
|----------------------------------|---------------------|-------------------|---------------------|------------------------|-------------------|-------------------|---------------------|
| | Research | Education | Total | Management and General | Fundraising | Total | |
| Research grants | \$ 1,600,000 | \$ - | \$ 1,600,000 | \$ - | \$ - | \$ - | \$ 1,600,000 |
| Salaries - other | 45,114 | 80,202 | 125,316 | 26,831 | 31,979 | 58,810 | 184,126 |
| Salaries - Executive Director | 54,088 | 59,816 | 113,904 | 12,300 | 30,111 | 42,411 | 156,315 |
| Office expenses | 40,567 | 16,157 | 56,724 | 39,668 | 16,633 | 56,301 | 113,025 |
| Professional fees | 4,170 | 4,170 | 8,340 | 31,239 | - | 31,239 | 39,579 |
| Office rent | 8,755 | 11,674 | 20,429 | 2,918 | 5,837 | 8,755 | 29,184 |
| Awareness programs | - | 4,398 | 4,398 | 201 | 398 | 599 | 4,997 |
| Payroll tax | 11,555 | 15,020 | 26,575 | 6,606 | 7,232 | 13,838 | 40,413 |
| Health insurance | 6,789 | 8,824 | 15,613 | 2,677 | 4,249 | 6,926 | 22,539 |
| Grants for professional meetings | 42,527 | 6,481 | 49,008 | 468 | - | 468 | 49,476 |
| Marketing | 850 | 14,356 | 15,206 | 3,851 | 10,348 | 14,199 | 29,405 |
| Board meetings | 2,478 | 1,251 | 3,729 | 3,015 | 540 | 3,555 | 7,284 |
| Website | 78 | 903 | 981 | 2,255 | 809 | 3,064 | 4,045 |
| Printing | 9,704 | 23,621 | 33,325 | 6,438 | 2,200 | 8,638 | 41,963 |
| Insurance | 1,992 | 2,329 | 4,321 | 3,829 | 431 | 4,260 | 8,581 |
| Workplace campaign | - | - | - | - | - | - | - |
| Telephone and internet | 86 | 86 | 172 | 1,903 | 82 | 1,985 | 2,157 |
| Recognition | - | 877 | 877 | 105 | 180 | 285 | 1,162 |
| Total expenses | \$ 1,828,753 | \$ 250,165 | \$ 2,078,918 | \$ 144,304 | \$ 111,029 | \$ 255,333 | \$ 2,334,251 |

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statement of Functional Expenses
For the Year Ended March 31, 2018**

| | Program Services | | | Supporting Activities | | | Total Expenses |
|----------------------------------|---------------------|-------------------|---------------------|------------------------|-------------------|-------------------|---------------------|
| | Research | Education | Total | Management and General | Fundraising | Total | |
| Research grants | \$ 1,290,411 | \$ - | \$ 1,290,411 | \$ - | \$ - | \$ - | \$ 1,290,411 |
| Salaries - other | 58,185 | 71,565 | 129,750 | 33,689 | 55,295 | 88,984 | 218,734 |
| Salaries - Executive Director | 61,655 | 56,625 | 118,280 | 15,083 | 28,667 | 43,750 | 162,030 |
| Office expenses | 10,991 | 26,046 | 37,037 | 30,912 | 9,778 | 40,690 | 77,727 |
| Professional fees | 22,000 | 3,475 | 25,475 | 10,060 | - | 10,060 | 35,535 |
| Office rent | 7,843 | 9,035 | 16,878 | 9,387 | 5,350 | 14,737 | 31,615 |
| Awareness programs | 9,521 | 20,086 | 29,607 | - | - | - | 29,607 |
| Payroll tax | 9,846 | 9,387 | 19,233 | 3,343 | 5,917 | 9,260 | 28,493 |
| Health insurance | 7,419 | 10,187 | 17,606 | 3,801 | 4,956 | 8,757 | 26,363 |
| Grants for professional meetings | 23,099 | - | 23,099 | - | - | - | 23,099 |
| Marketing | 5,075 | 10,700 | 15,775 | - | 3,202 | 3,202 | 18,977 |
| Board meetings | 17,110 | 845 | 17,955 | 74 | 82 | 156 | 18,111 |
| Website | 6,172 | 7,860 | 14,032 | 2,167 | 313 | 2,480 | 16,512 |
| Printing | 5,596 | 6,887 | 12,483 | 675 | 1,194 | 1,869 | 14,352 |
| Insurance | 929 | 914 | 1,843 | 5,535 | 537 | 6,072 | 7,915 |
| Workplace campaign | - | 800 | 800 | 50 | 4,582 | 4,632 | 5,432 |
| Telephone and internet | 941 | 835 | 1,776 | 775 | 68 | 843 | 2,619 |
| Recognition | 394 | 1,181 | 1,575 | 361 | 75 | 436 | 2,011 |
| Total expenses | \$ 1,537,187 | \$ 236,428 | \$ 1,773,615 | \$ 115,912 | \$ 120,016 | \$ 235,928 | \$ 2,009,543 |

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statements of Cash Flows
For the Years Ended March 31, 2019 and 2018**

| | 2019 | 2018 |
|----------------------------------------------------------------------------------------------------------|-------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (575,634) | \$ 1,332,576 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Realized gain on sale of investments | (69,594) | (238,224) |
| Unrealized gain on investments | (142,447) | (399,538) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | 88,265 | (88,265) |
| Other assets | (5,500) | 15,930 |
| Accounts payable and accrued expenses | (6,968) | 39,185 |
| Unearned revenue | - | (52,510) |
| | (711,878) | 609,154 |
| Cash flows from investing activities | | |
| Purchases of investments | (751,828) | (805,084) |
| Proceeds from sale of investments | 833,834 | 1,388,128 |
| | 82,006 | 583,044 |
| Net change in cash and cash equivalents | (629,872) | 1,192,198 |
| Cash and cash equivalents at beginning of year | 1,533,383 | 341,185 |
| Cash and cash equivalents at end of year | \$ 903,511 | \$ 1,533,383 |

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements For the Years Ended March 31, 2019 and 2018

1. Summary of Significant Account Policies

Organization

The Arthritis National Research Foundation (“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

The Foundation prepares its financial statements using the accrual basis of accounting in accordance with generally accepted accounting principles (“GAAP”). As a result, the Foundation is required to report information regarding its financial position and activities according to the two following classes of net assets:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and are available to support general operations. Board-designated amounts are included in net assets without donor restrictions. Net investment income from net assets with donor restrictions that has been appropriated for expenditure are also included in net assets without donor restrictions.

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed restrictions that require either the passage of time, the occurrence of a specific event, or that the principal be maintained in perpetuity and invested for the purpose of producing present and future income for unrestricted (without donor restrictions) use by the Foundation.

Use of Estimates and Assumptions

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. As of March 31, 2019 and 2018, and throughout these fiscal years, the Foundation had cash balances in financial institutions in excess of federally-insured limits. The Foundation has not experienced any losses in such accounts and management believes it is not exposed to significant credit risk.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2019 and 2018

1. Summary of Significant Account Policies (continued)

Investments

The Foundation carries investments in marketable equity securities with readily determinable fair values and all investments in debt securities at their estimated fair values in the statements of financial position. The valuation of marketable equity securities is based upon quoted market prices as of the respective balance sheet dates. Unrealized and realized gains and losses are presented net in the accompanying statements of activities net of investment-related expenses. During the years ended March 31, 2019 and 2018, investment-related expenses were \$25,043 and \$21,222, respectively.

The Foundation's investments are exposed to various risks, such as market, interest 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.

Contributions

Contributions, including endowment gifts and pledges, are recognized in the period received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not recognized as support until the conditions are substantially met.

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 support with donor restrictions. When a donor's stipulated time restriction ends, or a purpose restriction is accomplished, net assets are reclassified to without donor restrictions 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 net assets without donor restrictions. Net assets with donor restrictions include amounts stipulated by the donor that the corpus be invested in perpetuity and only investment income be made available for operations.

An allowance for uncollectible contributions receivable is established when needed based upon management's judgment, which considers such factors as prior collection history, adherence to payment plans, and the nature of the receivable.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2019 and 2018

1. Summary of Significant Account Policies (continued)

Contributions (continued)

For the year ended March 31, 2019, 32% of contributions were concentrated with three donors. For the year ended March 31, 2018, 42% of contributions were concentrated with three donors.

Bequests

The Foundation has been named as beneficiary in certain bequests. Bequests are not recognized as support until 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.

Grant Expense

For unconditional grants, grant expense is recognized in the period the grant is countersigned or when paid to the grantee. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions.

The Foundation's grantees sign a Grant Agreement at the time of the award. The first half of the grant is disbursed upon the grantees' performance of the initial grant provisions. At the mid-term, the grantees provide a narrative progress report. Once evaluated, the Foundation will release the second half of the grant award. Awarded grants that are expected to be paid in future years are recorded at the present value of expected future payments.

Allocation of Functional Expenses

The costs of providing various program services and supporting activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain natural expenses have been allocated to program services and supporting activities based on management estimates of the time and effort expended on that function.

Marketing and Advertising Expenses

Marketing and advertising costs are expensed as incurred.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2019 and 2018

1. Summary of Significant Account Policies (continued)

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. In addition, management evaluates potential tax exposures that may result from unrelated business income and activities that may jeopardize the Foundation's tax exempt status.

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 nonfinancial 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 received no in-kind support during the years ended March 31, 2019 and 2018.

Reclassification

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 financial statement presentation.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The new standard was effective and was adopted by the Foundation in the accompanying financial statements as of and for the fiscal year ended March 31, 2019, and on a retrospective basis as of and for the year ended March 31, 2018. The most significant impacts of this new financial

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2019 and 2018

1. Summary of Significant Account Policies (continued)

Recent Accounting Pronouncements (continued)

reporting standard include (i) the temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class labelled net assets with donor restrictions, (ii) the unrestricted net asset class has been labelled net assets without donor restrictions, and (iii) the financial statements include enhanced disclosures about liquidity and availability of financial assets (Note 6).

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This update changes the accounting for leases, requiring lessees to recognize the assets and liabilities that arise from all leases on their balance sheets. The new lease standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The new standard will be effective for reporting periods beginning after December 15, 2020, with early application permitted. Management is currently evaluating the impact of the adoption of this standard, and expects that the Foundation's assets and liabilities will increase by the present value of the contractual lease commitments disclosed in Note 5.

Subsequent Events

The Foundation's management has evaluated subsequent events from the statement of financial position date through November XX, 2019, the date the financial statements were available to be issued.

2. Investments

GAAP defines fair value as the price that the Foundation would receive to sell an asset, or pay to transfer a liability, in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The Foundation's investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Notes to Financial Statements (continued)
For the Years Ended March 31, 2019 and 2018**

2. Investments (continued)

The three-tier hierarchy of inputs is summarized below.

Level 1 - inputs are quoted prices in active markets.

Level 2 - inputs are observable, directly or indirectly.

Level 3 - inputs are unobservable and reflect assumptions of the reporting entity.

The following table presents assets that are measured at fair value on a recurring basis as of March 31, 2019 and 2018:

| <u>March 31, 2019</u> | <u>Fair Value</u> | Fair Value Measurements at Reporting Date | | |
|------------------------------|----------------------------|--------------------------------------------------|--------------------------|-----------------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Mutual funds | \$ 3,761,166 | \$ 3,761,166 | \$ - | \$ - |
| Domestic stocks | 3,261,230 | 3,261,230 | - | - |
| Corporate bonds | 835,556 | - | 835,556 | - |
| Certificates of deposit | 149,693 | 149,693 | - | - |
| | <u>\$ 8,007,645</u> | <u>\$ 7,172,089</u> | <u>\$ 835,556</u> | <u>\$ -</u> |

| <u>March 31, 2018</u> | <u>Fair Value</u> | Fair Value Measurements at Reporting Date | | |
|------------------------------|----------------------------|--------------------------------------------------|--------------------------|-----------------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Mutual funds | \$ 3,568,490 | \$ 3,568,490 | \$ - | \$ - |
| Domestic stocks | 3,228,773 | 3,228,773 | - | - |
| Corporate bonds | 932,059 | - | 932,059 | - |
| Certificates of deposit | 148,288 | 148,288 | - | - |
| | <u>\$ 7,877,610</u> | <u>\$ 6,945,551</u> | <u>\$ 932,059</u> | <u>\$ -</u> |

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes to the valuation methodologies during the years ended March 31, 2019 and 2018.

Mutual funds and domestic stocks: Such investments are deemed to be actively-traded and are valued at the daily closing price. Mutual funds held by the Foundation are open-end mutual funds that are registered with the United States Securities and Exchange Commission. These funds are required to publish their daily Net Asset Value and to transact at that price.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2019 and 2018

2. Investments (continued)

Corporate bonds: Such investments are valued at the closing price reported on the active market on which the individual securities are traded.

Certificates of deposit: Such investments are valued at the principal balance of the deposit plus accrued interest.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company invests in various investment securities and such securities are exposed to various risks, such as interest rate, market, and credit risks. Because of the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the account balances and the amounts reported in the statements of financial position.

Investment income is as follows for the years ended March 31, 2019 and 2018:

| | 2019 | 2018 |
|--------------------------------------|-------------------|-------------------|
| Dividends and interest income | \$ 180,088 | \$ 161,308 |
| Realized gain on sale of investments | 69,594 | 238,224 |
| Unrealized gain on investments | 142,447 | 399,538 |
| | <u>392,129</u> | <u>799,070</u> |
| Investment fees | <u>(25,043)</u> | <u>(21,222)</u> |
| Total investment income | <u>\$ 367,086</u> | <u>\$ 777,848</u> |

3. Note Receivable

The Foundation has a note receivable that is due from the trust of a donor, with interest due annually at 5%. The note and accrued interest is expected to be paid in full to the Foundation on the date of termination of the owner's estate. The outstanding principal balance of the note as of March 31, 2019 and 2018 is \$56,415. Related accrued interest is \$28,210 as of March 31, 2019 and 2018.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2019 and 2018

4. Net Assets with Donor Restrictions

Net assets are restricted by donors as follows as of March 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------------------|-----------------------|-----------------------|
| Purpose restricted net assets: | | |
| Restricted for Ankylosing Spondylitis research | \$ 426,104 | \$ 426,104 |
| Total Purpose Restricted Net Assets | <u>\$ 426,104</u> | <u>\$ 426,104</u> |
| Permanently restricted net assets: | | |
| Endowment fund | \$ 10,286 | \$ 10,286 |
| Total Permanently Restricted Net Assets | <u>\$ 10,286</u> | <u>\$ 10,286</u> |

In addition, the Foundation's Board of Directors designated net assets of \$4,076,290 and \$4,109,445 for the Foundation's unrestricted reserves as of March 31, 2019 and 2018, respectively.

5. Commitments and Contingencies

The Foundation leases commercial office space in Long Beach, California, through March 2021 and the related lease requires the payment of minimum annual rentals. Office rental expense for the years ended March 31, 2019 and 2018 was \$29,184 and \$31,615, respectively. The Foundation also leases office equipment on a month-to-month basis.

Future minimum lease payments under operating agreements are as follows:

| Year Ending March 31, | |
|--------------------------|------------------|
| <u>2020</u> | \$ 29,184 |
| 2021 | <u>19,456</u> |
| | <u>\$ 48,640</u> |

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2019 and 2018

6. Liquidity and Availability of Financial Assets

The Company's working capital and cash flows have seasonal variations during the year attributable primarily to a concentration of contributions received near calendar year-end and fiscal year-end and around the time of special events. The Foundation's most significant expenses relate to its granting activities and such amounts are based on the discretion of the Foundation's Board of Directors and variable in nature. Typically, the Foundation's grants are paid in two installments; the first installment occurring in June and the second installment occurring in March.

The following reflects the Foundation's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal Board designations.

Financial assets at March 31, 2019:

| | |
|-------------------------------------------------------------------------------|---------------------------|
| Cash and cash equivalents | \$ 903,511 |
| Investments | 8,007,645 |
| Note and accrued interest receivable | <u>84,625</u> |
| Total financial assets | 8,995,781 |
| Donor-imposed or Board-designated restrictions: | |
| Board-designated reserves | (4,076,290) |
| Donor-restricted funds | (436,390) |
| Receivables not expected to be collected during the next year | <u>(84,625)</u> |
| Total financial assets available to meet general expenditures within one-year | <u><u>\$4,398,476</u></u> |