



ARTHRITIS NATIONAL RESEARCH FOUNDATION

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEAR ENDED
MARCH 31, 2021**

ARTHRITIS NATIONAL RESEARCH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Arthritis National Research Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Arthritis National Research Foundation, (a not-for-profit organization), which comprise the statement of financial position as of March 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, 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 controls 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 audit. We conducted our audit 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 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 auditor considers 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arthritis National Research Foundation as of March 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

San Francisco, California
January 21, 2022

ARTHRITIS NATIONAL RESEARCH FOUNDATION

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2021

Assets

Current Assets

Cash	\$	779,066
Accounts receivable		42,704
Investments		9,379,638
Other Assets		20,931
Property and equipment, net		<u>10,849</u>

Total Assets \$ 10,233,188

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$	50,428
Deferred rent		<u>28,093</u>

Total Liabilities 78,521

Net Assets

Without donor restrictions		
Undesignated		9,578,563
Board designated for long term purposes		<u>250,000</u>
		9,828,563
With donor restrictions		<u>326,104</u>

Total Net Assets 10,154,667

Total Liabilities and Net Assets \$ 10,233,188

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

ARTHRITIS NATIONAL RESEARCH FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions and bequests	\$ 1,268,973	\$ --	\$ 1,268,973
In-kind contributions	134,860	--	134,860
Net realized and unrealized gain on investments	2,924,126	--	2,924,126
Interest and dividends, net of investment and advisory fees of \$23,679	123,323	--	123,323
Other income	42,704	--	42,704
Total Revenues and Other Support	<u>4,493,986</u>	<u>--</u>	<u>4,493,986</u>
Expenses			
Program services			
Research	1,567,125	--	1,567,125
Education	254,691	--	254,691
Total Program Services	<u>1,821,816</u>	<u>--</u>	<u>1,821,816</u>
Support Services			
Management and general	273,643	--	273,643
Fundraising	84,287	--	84,287
Total Support Services	<u>357,930</u>	<u>--</u>	<u>357,930</u>
Total Expenses	<u>2,179,746</u>	<u>--</u>	<u>2,179,746</u>
Change in Net Assets	<u>2,314,240</u>	<u>--</u>	<u>2,314,240</u>
Net Assets - Beginning, as Previously Reported	7,504,037	336,390	7,840,427
Prior Period Adjustment (Note 1)	<u>10,286</u>	<u>(10,286)</u>	<u>--</u>
Net Assets - Beginning, as Restated	<u>7,514,323</u>	<u>326,104</u>	<u>7,840,427</u>
Net Assets - Ending	<u>\$ 9,828,563</u>	<u>\$ 326,104</u>	<u>\$ 10,154,667</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, 2021

	Program Services			Support Services			Total Expenses
	Research	Education	Total	Management and General	Fundraising	Total	
Research Grants, net of \$36,530 of grant funds returned	\$ 1,363,470	\$ --	\$ 1,363,470	\$ --	\$ --	\$ --	\$ 1,363,470
Marketing and advertising	92,379	69,421	161,800	3,889	3,382	7,271	169,071
Professional fees	7,186	7,186	14,372	115,514	1,788	117,302	131,674
Salaries - other	87	60,325	60,412	21,138	35,914	57,052	117,464
Salaries - executive director	27,031	42,897	69,928	6,613	8,937	15,550	85,478
Write off of note receivable	--	--	--	84,625	--	84,625	84,625
Office rent	20,426	18,908	39,334	14,460	5,675	20,135	59,469
Research communication and support	21,321	13,960	35,281	384	4,359	4,743	40,024
Office expenses	8,854	7,328	16,182	6,617	5,480	12,097	28,279
Health insurance	5,429	6,118	11,547	3,323	1,110	4,433	15,980
Payroll taxes	3,833	3,743	7,576	1,926	5,161	7,087	14,663
Miscellaneous	2,661	5,976	8,637	1,129	4,512	5,641	14,278
Printing	2,133	6,104	8,237	5,385	591	5,976	14,213
Website	3,967	7,934	11,901	1,572	--	1,572	13,473
Bank and credit card fees	312	979	1,291	1,354	5,169	6,523	7,814
Postage	5,221	80	5,301	440	318	758	6,059
Insurance	1,765	2,063	3,828	586	726	1,312	5,140
Telephone and internet	994	1,261	2,255	1,162	253	1,415	3,670
Payroll processing fees	--	123	123	2,562	898	3,460	3,583
Depreciation and amortization	--	--	--	950	--	950	950
Meetings and retreats	56	285	341	14	14	28	369
Total Expenses	<u>\$ 1,567,125</u>	<u>\$ 254,691</u>	<u>\$ 1,821,816</u>	<u>\$ 273,643</u>	<u>\$ 84,287</u>	<u>\$ 357,930</u>	<u>\$ 2,179,746</u>

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

ARTHRITIS NATIONAL RESEARCH FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2021

Cash Flows From Operating Activities

Change in net assets	\$ 2,314,240
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net realized and unrealized gain on investments	(2,924,126)
Write off of note receivable	84,625
Depreciation and amortization	950
Changes in operating assets and liabilities:	
Accounts receivable	(42,704)
Other assets	(4,937)
Accounts payable and accrued expenses	37,413
Deferred rent	<u>8,278</u>

Net Cash Used in Operating Activities (526,261)

Cash Flows From Investing Activities

Proceeds from sale of investments	2,339,497
Purchase of investments	(1,839,191)
Purchase of property and equipment	<u>(5,602)</u>

Net Cash Provided by Investing Activities 494,704

Net Decrease in Cash (31,557)

Cash - Beginning 810,623

Cash - Ending \$ 779,066

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

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

Arthritis National Research Foundation (the “Foundation”) was incorporated on May 2, 1952, as a California nonprofit corporation. The Foundation provides arthritis research grants to scientists at major universities and research institutes across America. One- and two-year arthritis research grants allow these newer scientists to develop their important research to a stage where it can be continued and further supported by other national agencies.

Since 1970, the Arthritis National Research Foundation has funded arthritis research to understand the causes, prevention and development of new treatments for osteoarthritis, rheumatoid arthritis, psoriatic arthritis, lupus, juvenile arthritis and other autoimmune diseases. Since then, the Foundation has funded over 250 scientists, and our research projects have led to new information and treatments.

The Foundation’s mission statement is as follows:

“The mission is to provide initial research funding to brilliant, investigative scientists with new ideas to cure arthritis and related autoimmune diseases.”

BASIS OF ACCOUNTING

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which involves the application of the accrual method of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred regardless of the timing of the related cash flows.

PRIOR PERIOD ADJUSTMENT

The prior period adjustment reflects an amount that was improperly included in beginning net assets with donor restrictions. The adjustment reflects the reclassification from net assets with donor restrictions to net assets without donor restrictions.

CLASSIFICATION OF NET ASSETS

U. S. GAAP requires that the Foundation report information regarding its financial position and activities according to two classes of net assets: without donor restriction and with donor restrictions. Accordingly, the net assets of the Foundation are classified and reported as described below:

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Without Donor Restrictions

Those net assets and activities which represent the portion of expendable funds that are available to support the Foundation's operation. A portion of these net assets may be designated by the Board of Directors for specific purposes.

With Donor Restrictions

Donor-restricted net assets represent those net assets which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; (d) acquisition of long-lived assets; (e) assets donated with stipulations by the donor that they be used for a specified purpose, be preserved, not be sold; or (f) be invested to provide a permanent source of income.

ESTIMATES

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined 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. The carrying amounts of cash, receivables and accounts payable approximate fair value because of the short maturity of these instruments.

INVESTMENTS

Investments in equity and debt securities are carried at fair value based on quoted market prices. Investments in bonds are carried at fair value based upon observable inputs. Unrealized gains and losses are included in the statement of activities and changes in net assets.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT

The Foundation capitalizes acquisitions of property and equipment with a cost or value in excess of \$1,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost. Depreciation and amortization are calculated using the straight-line method based upon estimated useful lives of seven years. Leasehold improvements are amortized over the shorter of the asset's useful life or the lease term. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation and amortization of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities and changes in net assets.

DEFERRED RENT

The Foundation leases office space under a lease agreement that is subject to scheduled rent increases. Rent expense is recognized on the straight-line basis over the term of the lease and the difference between the average rental amount charged and amount payable under the lease is included in deferred rent in the accompanying statement of financial position. At March 31, 2021, deferred rent was \$28,093.

REVENUE RECOGNITION

Contributions and Bequests

The Foundation recognizes all unconditional contributions when they are received or unconditionally promised, regardless of compliance with restrictions. Unconditional contributions are recognized based on the existence or absence of donor-imposed restrictions. Unconditional contributions with donor-imposed restrictions may be expendable or are required to be held in perpetuity.

The satisfaction of donor-imposed restrictions on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities and changes in net assets. Such transactions are recorded as net assets released from restrictions and are reported separately from other transactions.

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.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Contributed Goods and Services

Donated material and equipment are recorded as contributions at their fair value on the date of receipt. Such donations are reported as without donor-restricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as with donor-restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies net assets with restrictions to net assets without restrictions at that time.

The Foundation records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated.

For the year ended March 31, 2021, there were contributed advertising services totaling \$134,860.

Investment Income

Dividends are recorded on the ex-dividend date. Interest income is recognized on the accrual basis. Investment transactions are accounted for on a trade-date basis. Realized and unrealized investment gains (losses) and investment income (losses) derived from investment transactions are included as income in the year earned.

GRANT AWARDS

Grants are characterized as either conditional or unconditional. Conditional grants are those that depend upon the occurrence of a specified future and uncertain event to bind the Foundation. These grants are not reflected in the financial statements until the period in which the conditions upon which they depend are substantially met, that is, when they become unconditional.

ADVERTISING

The costs of advertising are charged to expense as incurred. Advertising expense was \$137,115 for the year ended March 31, 2021, and is included in marketing and advertising, on the statement of functional expenses.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Foundation is a qualified organization exempt from federal income and state franchise taxes under §501(c)(3) of the Internal Revenue Code (“IRC”) and §23701d of the California Revenue and Taxation Code, respectively. Accordingly, the Foundation is exempt from federal and California income taxes and is not liable for federal unemployment taxes

U.S. GAAP requires management to evaluate the tax positions taken and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more-likely-than-not would not be sustained upon examination by taxing authorities. Management evaluated the Foundation’s tax positions and concluded that it maintained its tax-exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements. Therefore, no provision or liability for unknown income taxes has been included in the financial statements. The Foundation’s tax returns are subject to examination by federal and state taxing authorities. However, there are no examinations in progress nor are there any pending.

CONCENTRATIONS OF RISK

Financial Instruments

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments.

Cash

The Foundation maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation is exposed to credit risk in the event of default by its primary banking institution to the extent amounts exceed FDIC insured amounts.

Investments

The Foundation invests in various investments that are not covered by federal insurance. These investments are exposed to various risks such as interest rate, market, and credit risks. Due to 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 Foundation’s balances and the amounts reported in the statement of financial position. The Foundation’s management attempts to minimize its exposure to these risks by closely monitoring all investments in accordance with the Foundation’s policies.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATIONS OF RISK (CONTINUED)

Contributions and Bequests

During the year ended March 31, 2021, 20% of contributions and bequests were received from one donor.

FUNCTIONAL EXPENSE ALLOCATIONS

The costs of providing program and other supporting activities have been summarized on a functional basis in the statements of activities and changes in net assets and functional expenses. Expenses have been allocated between program, management and general, and fundraising based on direct identification when possible, and allocation if a single expense benefits more than one program or function. Salaries and related expenses are allocated based on the estimated time and efforts of involvement in different activities. Depreciation and amortization are allocated based on square footage. Other expenses that require allocation are based on estimates of the benefits received.

ADOPTED ACCOUNTING PRONOUNCEMENTS

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606), to provide guidance concerning recognition and measurement of revenue. In addition, significant additional disclosures are required about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is applicable for annual reporting periods beginning after December 15, 2019. The Foundation adopted ASU 2014-09 effective April 1, 2020, and had minimal impact on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 eliminates, adds and modifies certain disclosure requirements for fair value measurements. The Foundation adopted ASU 2018-13 on April 1, 2020, and it did not have a material impact on the Foundation’s financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following: a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. This ASU's effective date had two one-year delays and is now effective for fiscal years beginning after December 15, 2021; and early application is permitted. Management is evaluating the impact of this guidance.

In June 2016, FASB issues ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. The standard is effective for fiscal years beginning after December 31, 2022. Early adoption is permitted. Management is evaluating the impact of this guidance.

On September 17, 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-financial Assets*. ASU 2020-07 provides guidance concerning presentation and disclosure for contributed non-financial assets for nonprofit organizations, including additional presentation and disclosure rules for recognized contributed services. It does not change the recognition and measurement requirements for contributed non-financial assets.

This ASU requires the nonprofit organization to present donated non-financial assets separately in the statement of activities and changes in net assets from contributions of cash or other financial assets. The additional disclosure rules require disclosure of non-financial assets by category and for each category; the disclosure is required to include the following:

- Qualitative information about whether contributed non-financial assets were either monetized or used during the reporting period. If used, a description of the programs or other activities in which those assets were used;
- The nonprofit organization's policy (if any) for monetizing rather than using contributed non-financial assets;
- A description of any associated donor-imposed restrictions;
- A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, *Fair Value Measurement*, at initial recognition.
- The principal market (or most advantageous market) used to arrive at a fair value measurement if it is a market in which the recipient nonprofit is prohibited by donor-imposed restrictions from selling or using the contributed non-financial asset.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The guidance should be applied on a retrospective basis, and is applicable for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. Management is evaluating the impact of this new guidance.

NOTE 2 - FAIR VALUE MEASUREMENTS

The Foundation's financial assets and liabilities that are carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset or a liability's classification is based on the lowest level input that is significant to its measurement.

Level 1

Inputs are unadjusted quoted prices for identical assets or liabilities in active markets accessible at the measurement date.

Level 2

Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities from those willing to trade in markets that are not active, or inputs that are derived principally from or corroborated by observable market data by correlation or other means for the term of the instrument.

Level 3

Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Foundation's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at March 31, 2021.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

Mutual Funds

The fair value of mutual funds are based on the daily closing prices as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

Domestic Stocks

The fair value of domestic stocks are based on inputs at the closing price reported on the active market on which the individual securities are traded.

Exchange Traded Funds (“ETFs”)

The Foundation’s ETF’s holds assets such as stocks, commodities, or bonds. Investments in ETFs are included in Level 1 of the fair value hierarchy.

Corporate and Government Bonds

The fair value of corporate and government bonds is based on pricing models maximizing the use of observable inputs for similar securities.

In accordance with the fair value hierarchy, investments at fair value are as follows:

	Investments at Fair Value as of March 31, 2021			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 4,520,070	\$ --	\$ --	\$ 4,520,070
Domestic stocks	3,937,414	--	--	3,937,414
Exchange traded funds	120,771	--	--	120,771
Government bonds	--	488,395	--	488,395
Corporate bonds	--	312,988	--	312,988
Total Investments at Fair Value	\$ 8,578,255	\$ 801,383	\$ --	\$ 9,379,638

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2021, consist of the following:

Furniture and equipment	\$ 6,324
Leasehold improvements	<u>5,601</u>
	11,925
Less: accumulated depreciation and amortization	<u>(1,076)</u>
Property and Equipment, Net	<u>\$ 10,849</u>

Depreciation and amortization expense for the year ended March 31, 2021, was \$950.

NOTE 4 - NET ASSETS WITH RESTRICTIONS

The assets with donor restrictions consist of the following at March 31, 2021:

Subject to expenditure for specified purpose:

Ankylosing Spondylitis research	<u>\$ 326,104</u>
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NOTE 5 - COMMITMENTS

The Foundation entered into an operating lease agreement related to its commercial office space, which expires in May 2025. The schedule of minimum lease commitments are as follows:

For the Years Ending March 31,	Amount
2022	\$ 63,117
2023	65,011
2024	66,961
2025	68,969
2026	<u>11,722</u>
	<u>\$ 275,780</u>

For the year ended March 31, 2021, rent expense was \$59,469.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 6 - RELATED PARTY TRANSACTIONS

Two members of the Board of Directors are vice president and managing partner, respectively, of financial institutions that manage the Foundation's investments. During the year ended March 31, 2021, \$23,679 was paid to these financial institutions for investment and advisory fees.

NOTE 7 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation regularly monitors liquidity to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on investment of its funds. The Foundation's financial assets available within one year of the statement of financial position date for general expenditures were as follows:

Cash	\$ 779,066
Accounts receivable	42,704
Investments	<u>9,379,638</u>
Total	<u>\$ 10,201,408</u>

The Foundation has more than \$10,000,000 in cash, accounts receivables, and investments, which are available for general expenditures. Management is focused on sustaining the financial liquidity of the Foundation throughout the year. This is done through monitoring and reviewing the Foundation's cash flow needs on a weekly basis. As part of its liquidity plan, the Foundation maintains enough cash to cover annual grants and operating costs. The investments in the table above are available to meet cash flow needs, because they are either scheduled to liquidate within the year or can be liquidated at any time.

NOTE 8 - RISK AND UNCERTAINTY

The global economy has been impacted by a pandemic outbreak of the COVID-19 virus, including the United States of America beginning March 2020. This has resulted in many businesses temporarily closing or working in remote environments. The Foundation has been able to continue most of its operations in a remote environment. The Foundation does not yet know the full extent of the potential impact, if any, this may have on its business operations, and no specific material adverse matters have been identified or estimable. The Foundation will continue to monitor the COVID-19 situation closely and revise its estimates in future periods, as necessary.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021

NOTE 9 - LITIGATION

The Foundation was threatened with litigation arising out of the normal course of operations. The Foundation's management believes it has adequate defenses for these matters and, thus, has made no provision in the financial statements for any costs relating to the payment of such claims, except for the insurance deductible of \$25,000 of which, \$14,560 is included in accounts payable and accrued expenses at March 31, 2021, and \$10,440 was paid during the year ended March 31, 2021. These matters were referred to the Foundation's attorneys. In management's opinion, a material unfavorable outcome is remote. Subsequent to year-end, the matter was settled by the insurance company.

NOTE 10 - SUBSEQUENT EVENTS

The Foundation has evaluated all subsequent events through January 21, 2022, the date the financial statements were available to be issued. Except for the matter discussed in Note 9, there are no events identified requiring recognition or disclosure in the financial statements.