

**Audited Financial Statements
With Independent Auditors' Report**



Arthritis National Research Foundation

**As of and for the Years Ended
March 31, 2017 and 2016**

*Audited Financial Statements
With Independent Auditors' Report*



Arthritis National Research Foundation

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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, 2017, and the related statements of activities, 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 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 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 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, 2017, 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.

Other Matter

The financial statements of the Arthritis National Research Foundation as of March 31, 2016 and for the year then ended, were audited by other auditors, whose report dated September 7, 2016, expressed an unqualified opinion on those financial statements.

Haskell & White LLP

HASKELL & WHITE LLP

Irvine, California
November 1, 2017

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statements of Financial Position
As of March 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Assets		
Cash and cash equivalents	\$ 341,185	\$ 1,065,255
Accrued interest receivable	28,251	13,014
Prepaid expenses	15,930	-
Investments (Note 2)	7,822,892	6,893,716
Deposits	2,432	2,432
Note receivable	56,415	56,415
	<u>56,415</u>	<u>56,415</u>
Total assets	<u>\$ 8,267,105</u>	<u>\$ 8,030,832</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 5,106	\$ 5,104
Grants payable	-	50,000
Unearned revenue	52,510	-
	<u>52,510</u>	<u>-</u>
Total liabilities	<u>57,616</u>	<u>55,104</u>
Commitments (Note 5)		
Net assets		
Unrestricted:		
Undesignated	3,874,321	4,186,287
Board-designated endowment	3,898,778	3,422,313
Total unrestricted	<u>7,773,099</u>	<u>7,608,600</u>
Temporarily restricted	426,104	356,842
Permanently restricted	10,286	10,286
	<u>10,286</u>	<u>10,286</u>
Total net assets	<u>8,209,489</u>	<u>7,975,728</u>
Total liabilities and net assets	<u>\$ 8,267,105</u>	<u>\$ 8,030,832</u>

See accompanying notes to the financial statements and independent auditors' report.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statement of Activities
For the Year Ended March 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Public support:				
Contributions and bequests	\$ 808,582	\$ 69,262	\$ -	\$ 877,844
Investment return:				
Interest income	57,266	-	-	57,266
Dividend income	114,541	-	-	114,541
Gain on sale of investments	231,495	-	-	231,495
Unrealized gain on investments	622,708	-	-	622,708
Total investment return	<u>1,026,010</u>	<u>-</u>	<u>-</u>	<u>1,026,010</u>
Total support and revenue	<u>1,834,592</u>	<u>69,262</u>	<u>-</u>	<u>1,903,854</u>
Expenses				
Program services:				
Research	1,261,339	-	-	1,261,339
Education	243,640	-	-	243,640
Total program services	<u>1,504,979</u>	<u>-</u>	<u>-</u>	<u>1,504,979</u>
Supporting services:				
Management and general	127,560	-	-	127,560
Fundraising	37,554	-	-	37,554
Total supporting services	<u>165,114</u>	<u>-</u>	<u>-</u>	<u>165,114</u>
Total expenses	<u>1,670,093</u>	<u>-</u>	<u>-</u>	<u>1,670,093</u>
Change in net assets	164,499	69,262	-	233,761
Net assets, beginning of year	<u>7,608,600</u>	<u>356,842</u>	<u>10,286</u>	<u>7,975,728</u>
Net assets, end of year	<u>\$ 7,773,099</u>	<u>\$ 426,104</u>	<u>\$ 10,286</u>	<u>\$ 8,209,489</u>

See accompanying notes to the financial statements and independent auditors' report.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statement of Activities
For the Year Ended March 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Public support:				
Contributions and bequests	\$ 855,689	\$ 356,842	\$ -	\$ 1,212,531
Investment return:				
Interest income	53,246	-	-	53,246
Dividend income	102,984	-	-	102,984
Gain on sale of investments	371,926	-	-	371,926
Unrealized loss on investments	(614,508)	-	-	(614,508)
Total investment return	<u>(86,352)</u>	<u>-</u>	<u>-</u>	<u>(86,352)</u>
Total support and revenue	<u>769,337</u>	<u>356,842</u>	<u>-</u>	<u>1,126,179</u>
Expenses				
Program services:				
Research	1,440,782	-	-	1,440,782
Education	<u>224,973</u>	<u>-</u>	<u>-</u>	<u>224,973</u>
Total program services	<u>1,665,755</u>	<u>-</u>	<u>-</u>	<u>1,665,755</u>
Supporting services:				
Management and general	99,379	-	-	99,379
Fundraising	<u>37,027</u>	<u>-</u>	<u>-</u>	<u>37,027</u>
Total supporting services	<u>136,406</u>	<u>-</u>	<u>-</u>	<u>136,406</u>
Total expenses	<u>1,802,161</u>	<u>-</u>	<u>-</u>	<u>1,802,161</u>
Change in net assets	(1,032,824)	356,842	-	(675,982)
Net assets, beginning of year	<u>8,641,424</u>	<u>-</u>	<u>10,286</u>	<u>8,651,710</u>
Net assets, end of year	<u>\$ 7,608,600</u>	<u>\$ 356,842</u>	<u>\$ 10,286</u>	<u>\$ 7,975,728</u>

See accompanying notes to the financial statements and independent auditors' report.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Statement of Functional Expenses For the Year Ended March 31, 2017

	Program Services			Supporting Services			Total Expenses
	Research	Education	Total	Management and General	Fundraising	Total	
Research grants	\$ 1,120,060	\$ -	\$ 1,120,060	\$ -	\$ -	\$ -	\$ 1,120,060
Grants for professional meetings	28,604	-	28,604	-	-	-	28,604
Awareness program	-	31,595	31,595	-	(2,707)	(2,707)	28,888
Salaries - Executive Director	41,500	56,583	98,083	10,167	11,750	21,917	120,000
Salaries - other	31,088	56,741	87,829	26,464	10,049	36,513	124,342
Payroll tax	5,140	8,516	13,656	2,110	1,479	3,589	17,245
Health insurance	4,080	11,051	15,131	6,138	1,178	7,316	22,447
Office rent/parking	8,989	11,070	20,059	6,049	3,053	9,102	29,161
Telephone and internet	377	957	1,334	925	84	1,009	2,343
Website	1,875	8,811	10,686	5,916	185	6,101	16,787
Insurance	565	960	1,525	5,261	152	5,413	6,938
Investment fees	-	-	-	20,196	-	20,196	20,196
Advertising	2,293	23,173	25,466	750	3,926	4,676	30,142
Workplace campaign	-	750	750	-	750	750	1,500
Office expenses	3,961	22,450	26,411	27,613	5,362	32,975	59,386
Professional fees	-	3,070	3,070	13,900	80	13,980	17,050
Recognition	2,420	1,543	3,963	705	215	920	4,883
Printing	3,845	6,370	10,215	1,366	1,998	3,364	13,579
Board meetings	6,542	-	6,542	-	-	-	6,542
Total expenses	\$ 1,261,339	\$ 243,640	\$ 1,504,979	\$ 127,560	\$ 37,554	\$ 165,114	\$ 1,670,093

See accompanying notes to the financial statements and independent auditors' report.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Statement of Functional Expenses For the Year Ended March 31, 2016

	Program Services			Supporting Services			Total Expenses
	Research	Education	Total	Management and General	Fundraising	Total	
Research grants	\$ 1,281,281	\$ -	\$ 1,281,281	\$ -	\$ -	\$ -	\$ 1,281,281
Grants for professional meetings	27,125	-	27,125	-	-	-	27,125
Awareness program	3,309	40,348	43,657	255	9,231	9,486	53,143
Salaries - Executive Director	47,417	51,333	98,750	11,583	9,667	21,250	120,000
Salaries - other	35,386	38,177	73,563	22,111	5,600	27,711	101,274
Payroll tax	6,099	6,414	12,513	1,716	988	2,704	15,217
Health insurance	11,267	10,113	21,380	2,113	1,384	3,497	24,877
Office rent/parking	5,733	9,952	15,685	5,820	2,219	8,039	23,724
Telephone and internet	505	1,343	1,848	823	17	840	2,688
Website	1,405	11,231	12,636	3,226	300	3,526	16,162
Insurance	740	781	1,521	5,228	117	5,345	6,866
Investment fees	-	-	-	19,340	-	19,340	19,340
Advertising	2,550	10,493	13,043	4,000	442	4,442	17,485
Workplace campaign	-	11,728	11,728	100	4,573	4,673	16,401
Office expenses	1,129	15,587	16,716	13,771	1,776	15,547	32,263
Professional fees	9,500	10,840	20,340	7,567	75	7,642	27,982
Recognition	801	198	999	164	-	164	1,163
Printing	-	6,313	6,313	1,495	638	2,133	8,446
Board meetings	6,535	122	6,657	67	-	67	6,724
Total expenses	\$ 1,440,782	\$ 224,973	\$ 1,665,755	\$ 99,379	\$ 37,027	\$ 136,406	\$ 1,802,161

See accompanying notes to the financial statements and independent auditors' report.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statements of Cash Flows
For the Years Ended March 31, 2017 and 2016**

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 233,761	\$ (675,982)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on sale of investments	(231,495)	(371,926)
Unrealized (gain) loss on investments	(632,241)	614,508
Stock donations received	-	(3,123)
Changes in operating assets and liabilities:		
Accrued interest receivable	(15,237)	-
Prepaid expenses	(15,930)	-
Deposits	-	(2,432)
Accounts payable	2	-
Unearned revenue	52,510	-
Grants payable	(50,000)	50,000
Net cash used in operating activities	(658,630)	(388,955)
Cash flows from investing activities		
Purchases of investments	(909,236)	(969,996)
Proceeds from sale of investments	843,796	1,967,154
Net cash (used in) provided by investing activities	(65,440)	997,158
Net change in cash and cash equivalents	(724,070)	608,203
Cash and cash equivalents at beginning of year	1,065,255	457,052
Cash and cash equivalents at end of year	\$ 341,185	\$ 1,065,255

See accompanying notes to the financial statements and independent auditors' report.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements For the Years Ended March 31, 2017 and 2016

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 of Financial Statements

The Foundation prepares its financial statements using the accrual basis of accounting and 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.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Foundation or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

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 (“GAAP”). 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.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2017 and 2016

1. Summary of Significant Account 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.

At March 31, 2017 and 2016, and throughout those 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 believes it is not exposed to any significant credit risk.

Investments

The Foundation carries investments in marketable equity 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 equity securities is based upon quoted market prices and performed as of the respective balance sheet dates. Unrealized and realized gains and losses are included and separately categorized in the accompanying statements of activities.

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 as support in the period received or pledged. 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 included as support until the conditions are substantially met.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2017 and 2016

1. Summary of Significant Account Policies (continued)

Contributions (continued)

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 the 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, aging statistics of contributions, and the nature of the receivable.

For the year ended March 31, 2017, no individual donor made contributions and bequests that were greater than 10% of total public support. For the year ended March 31, 2016, approximately 39% of contributions and bequests were from two donors.

Legacies and Bequests

The Foundation has been named as beneficiary in certain 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.

Grant Expense

Grant expense is recognized when a payment is made to a grantee, or in the period the grant is countersigned, provided the grant is not subject to significant future conditions. 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.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2017 and 2016

1. Summary of Significant Account Policies (continued)

Grant Expense (continued)

Grantees sign a Grant Agreement at the time of the award. The first half of the grant 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. At March 31, 2016, grants payable were \$50,000 and were not discounted as a related grants were expected to be paid within 12 months.

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.

Advertising Expenses

The Foundation charges advertising costs to expense as they are incurred. These costs are included in the accompanying statements of functional expenses.

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 tax and activities that may jeopardize the Company'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.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2017 and 2016

1. Summary of Significant Account Policies (continued)

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, 2017 and 2016.

Reclassification

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 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 will be effective for reporting periods beginning after December 15, 2017, with early application permitted. Management is currently evaluating the impact of the adoption of this standard.

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, 2019, with early application permitted. Management is currently evaluating the impact of the adoption of this standard.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2017 and 2016

1. Summary of Significant Account Policies (continued)

Subsequent Events

The Foundation's management has evaluated subsequent events from the statement of financial position date through November 1, 2017, the date the financial statements were available to be issued.

2. Investments and 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 and reflect assumption of the reporting entity.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Notes to Financial Statements (continued)
For the Years Ended March 31, 2017 and 2016**

2. Investments and Fair Value Hierarchy (continued)

The following table presents assets that are measured at fair value on a recurring basis at March 31, 2017 and 2016:

<u>March 31, 2017</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>
Mutual funds	\$ 3,103,057	\$ 3,103,057	\$ -	\$ -
Domestic stocks	2,870,971	2,870,971	-	-
Certificates of deposit	548,723	548,723	-	-
Corporate bonds	1,251,926	-	1,251,926	-
Foreign bonds	48,215	-	48,215	-
	<u>\$ 7,822,892</u>	<u>\$ 6,522,751</u>	<u>\$ 1,300,141</u>	<u>\$ -</u>

<u>March 31, 2016</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>
Mutual funds	\$ 2,653,811	\$ 2,653,811	\$ -	\$ -
Domestic stocks	2,696,294	2,696,294	-	-
Corporate bonds	1,393,261	-	1,393,261	-
Foreign bonds	150,350	-	150,350	-
	<u>\$ 6,893,716</u>	<u>\$ 5,350,105</u>	<u>\$ 1,543,611</u>	<u>\$ -</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 will be paid in full to the Foundation on the date of termination of the owner's estate. The outstanding balance of the note at March 31, 2017 and 2016 is \$56,415.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2017 and 2016

4. Restrictions of Net Assets

Net assets were restricted by donors, or designated by the Foundation's Board of Directors, as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Undesignated	\$ 3,874,321	\$ 4,186,287
Board-designated endowment	<u>3,898,778</u>	<u>3,422,313</u>
Total Unrestricted Net Assets	<u>7,773,099</u>	<u>7,608,600</u>
Temporarily restricted net assets:		
Endowment fund	<u>426,104</u>	<u>356,842</u>
Total Temporarily Restricted Net Assets:	<u>426,104</u>	<u>356,842</u>
Permanently restricted net assets:		
Restricted for Ankylosing spondylitis research	<u>10,286</u>	<u>10,286</u>
Total Permanently Restricted Net Assets	<u>10,286</u>	<u>10,286</u>
Total Net Assets	<u>\$ 8,209,489</u>	<u>\$ 7,975,728</u>

5. Commitments

The Foundation leases commercial office space and office equipment under various terms through March 2021 or on a month-to-month basis. The terms of the office space lease provide for payment of minimum annual rentals. Office and equipment rental expense for the years ended March 31, 2017 and 2016 was \$31,821 and \$27,682, respectively.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2017 and 2016

5. Commitments (continued)

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

<u>Year Ending</u> <u>March 31,</u>	
2018	\$ 29,184
2019	29,184
2020	29,184
2021	<u>19,456</u>
	<u><u>\$ 107,008</u></u>

6. Endowment Funds

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

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

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2017 and 2016

6. Endowment Funds (continued)

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.

Net changes in endowment funds for the years ended March 31, 2017 and 2016 were as follows:

<u>March 31, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,422,313	\$ 356,842	\$ 10,286	\$ 3,789,441
Investment return:				
Investment income	56,654	-	-	56,654
Net appreciation (realized and unrealized)	419,811	-	-	419,811
Total investment return	<u>476,465</u>	<u>-</u>	<u>-</u>	<u>476,465</u>
Contributions				
Donor-designated contribution	-	69,262	-	69,262
Board-designated transfers	-	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 3,898,778</u>	<u>\$ 426,104</u>	<u>\$ 10,286</u>	<u>\$ 4,335,168</u>

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Notes to Financial Statements (continued)
For the Years Ended March 31, 2017 and 2016**

6. Endowment Funds (continued)

Investment Policy for Endowment Funds (continued)

<u>March 31, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,065,437	\$ -	\$ 10,286	\$ 4,075,723
Investment return:				
Investment income	55,672	166	-	55,838
Net depreciation (realized and unrealized)	(148,796)	-	-	(148,796)
Total investment return	(93,124)	166	-	(92,958)
Contributions				
Donor-designated contribution	-	356,842	-	356,842
Board-designated transfers	250,000	-	-	250,000
Appropriation of endowment assets for expenditure	(800,000)	(166)	-	(800,166)
Endowment net assets, end of year	<u>\$ 3,422,313</u>	<u>\$ 356,842</u>	<u>\$ 10,286</u>	<u>\$ 3,789,441</u>