

Audited Financial Statements



Arthritis National Research Foundation

**As of and for the Years Ended
March 31, 2023 and 2022**

*Financial Statements
With Independent Auditors' Report*



Arthritis National Research Foundation

As of and for the Years Ended March 31, 2023 and 2022

ARTHRITIS NATIONAL RESEARCH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Arthritis National Research Foundation

Opinion

We have audited the accompanying financial statements of Arthritis National Research Foundation (a not-for-profit organization) (the "Foundation"), which comprise the statements of financial position as of March 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of March 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

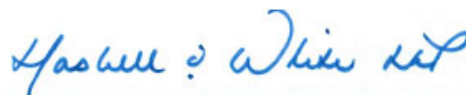
Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Haskell & White LLP".

HASKELL & WHITE LLP

Irvine, California
September 21, 2023

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Statements of Financial Position As of March 31, 2023 and 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 535,468	\$ 1,455,362
Receivables	30,000	11,808
Investments (Note 3)	8,907,582	9,502,164
Prepaid expenses	48,008	26,659
Total current assets	9,521,058	10,995,993
Noncurrent assets		
Operating lease right-of-use asset (Note 6)	124,813	-
Property and equipment, net (Note 4)	30,576	36,653
Other assets	8,847	8,847
Total noncurrent assets	164,236	45,500
Total assets	\$ 9,685,294	\$ 11,041,493
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	192,061	\$ 60,527
Operating lease liability, current (Note 6)	64,114	-
Deferred rent	-	24,421
Total current liabilities	256,175	84,948
Noncurrent liabilities		
Operating lease liability, noncurrent (Note 6)	79,554	-
Total noncurrent liabilities	79,554	-
Total liabilities	335,729	84,948
Commitments and contingencies (Note 6)		
Net assets		
Without Donor Restrictions		
Undesignated	8,998,411	10,480,441
Board-designated	250,000	250,000
Total without donor restrictions	9,248,411	10,730,441
With Donor Restrictions (Note 5)	101,154	226,104
Total net assets	9,349,565	10,956,545
Total liabilities and net assets	\$ 9,685,294	\$ 11,041,493

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statement of Activities and Changes in Net Assets
For the Year Ended March 31, 2023**

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Revenues and other support			
Contributions and bequests	\$ 2,344,273	\$ -	\$ 2,344,273
In-kind contributions	109,636	-	109,636
Net realized and unrealized loss on investments	(593,378)	-	(593,378)
Interest and dividends, net of investment and advisory fees of \$24,844	153,861	-	153,861
Total revenues and other support	<u>2,014,392</u>	<u>-</u>	<u>2,014,392</u>
Net assets released from restriction	<u>124,950</u>	<u>(124,950)</u>	<u>-</u>
Total revenues and other support	<u>2,139,342</u>	<u>(124,950)</u>	<u>2,014,392</u>
Expenses			
Program services			
Research	2,642,847	-	2,642,847
Education	406,209	-	406,209
Total program services	<u>3,049,056</u>	<u>-</u>	<u>3,049,056</u>
Supporting activities			
Management and general	268,149	-	268,149
Fundraising	304,167	-	304,167
Total supporting activities	<u>572,316</u>	<u>-</u>	<u>572,316</u>
Total expenses	<u>3,621,372</u>	<u>-</u>	<u>3,621,372</u>
Change in net assets	<u>(1,482,030)</u>	<u>(124,950)</u>	<u>(1,606,980)</u>
Net Assets, beginning of year	<u>10,730,441</u>	<u>226,104</u>	<u>10,956,545</u>
Net Assets, end of year	<u>\$ 9,248,411</u>	<u>\$ 101,154</u>	<u>\$ 9,349,565</u>

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statement of Activities and Changes in Net Assets
For the Year Ended March 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues and other support			
Contributions and bequests	\$ 2,969,125	\$ -	\$ 2,969,125
In-kind contributions	135,610	-	135,610
Net realized and unrealized gain on investments	454,966	-	454,966
Interest and dividends, net of investment and advisory fees of \$26,722	114,558	-	114,558
Other income	540	-	540
	<u> </u>	<u> </u>	<u> </u>
Total revenues and other support	3,674,799	-	3,674,799
	<u> </u>	<u> </u>	<u> </u>
Net assets released from restriction	100,000	(100,000)	-
	<u> </u>	<u> </u>	<u> </u>
Total revenues and other support	3,774,799	(100,000)	3,674,799
	<u> </u>	<u> </u>	<u> </u>
Expenses			
Program services			
Research	1,977,394	-	1,977,394
Education	413,343	-	413,343
	<u> </u>	<u> </u>	<u> </u>
Total program services	2,390,737	-	2,390,737
	<u> </u>	<u> </u>	<u> </u>
Supporting activities			
Management and general	233,079	-	233,079
Fundraising	249,105	-	249,105
	<u> </u>	<u> </u>	<u> </u>
Total supporting activities	482,184	-	482,184
	<u> </u>	<u> </u>	<u> </u>
Total expenses	2,872,921	-	2,872,921
	<u> </u>	<u> </u>	<u> </u>
Change in net assets	901,878	(100,000)	801,878
	<u> </u>	<u> </u>	<u> </u>
Net Assets, beginning of year	9,828,563	326,104	10,154,667
	<u> </u>	<u> </u>	<u> </u>
Net Assets, end of year	\$ 10,730,441	\$ 226,104	\$ 10,956,545
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Statement of Functional Expenses For the Year Ended March 31, 2023

	Program Services			Supporting Activities			Total Expenses
	Research	Education	Total	Management and General	Fundraising	Total	
Research grants, net of \$12,698 of grant funds returned	\$ 2,162,302	\$ -	\$ 2,162,302	\$ -	\$ -	\$ -	\$ 2,162,302
Salaries and wages	210,548	203,773	414,321	98,370	215,890	314,260	728,581
Communication and outreach	56,871	56,915	113,786	13,820	13,741	27,561	141,347
Professional services	12,513	12,513	25,026	83,204	2,105	85,309	110,335
Meetings, retreats and travel	51,457	20,019	71,476	7,552	7,010	14,562	86,038
Office expenses	22,666	22,555	45,221	12,542	9,746	22,288	67,509
Office rent	24,952	24,952	49,904	6,239	6,239	12,478	62,382
Payroll taxes	13,455	12,858	26,313	7,398	17,149	24,547	50,860
Health insurance	11,203	10,705	21,908	6,160	14,278	20,438	42,346
Research communication and support	37,961	3,682	41,643	262	262	524	42,167
Insurance	8,916	8,916	17,832	2,368	2,229	4,597	22,429
401(k) plan	6,571	6,469	13,040	2,332	6,573	8,905	21,945
Printing	5,483	5,431	10,914	3,697	1,839	5,536	16,450
Postage	5,309	5,291	10,600	2,380	835	3,215	13,815
Depreciation and amortization	-	-	-	10,562	-	10,562	10,562
State registrations and licenses	4,214	4,214	8,428	1,053	1,058	2,111	10,539
Telephone and internet	1,612	1,612	3,224	4,442	1,059	5,501	8,725
Miscellaneous	1,080	576	1,656	4,194	2,720	6,914	8,570
Bank and credit card fees	3,401	3,401	6,802	850	850	1,700	8,502
Payroll processing fees	2,333	2,327	4,660	724	584	1,308	5,968
Total expenses	\$ 2,642,847	\$ 406,209	\$ 3,049,056	\$ 268,149	\$ 304,167	\$ 572,316	\$ 3,621,372

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Statement of Functional Expenses For the Year Ended March 31, 2022

	Program Services			Supporting Activities			Total Expenses
	Research	Education	Total	Management and General	Fundraising	Total	
Research grants, net of \$1,932 of grant funds returned	\$ 1,598,068	\$ -	\$ 1,598,068	\$ -	\$ -	\$ -	\$ 1,598,068
Salaries and wages	146,428	170,451	316,879	85,781	159,387	245,168	562,047
Communication and outreach	71,322	78,400	149,722	22,081	28,308	50,389	200,111
Professional services	37,667	44,793	82,460	56,182	10,417	66,599	149,059
Meetings, retreats and travel	33,093	25,553	58,646	14,392	4,520	18,912	77,558
Office rent	25,806	26,106	51,912	2,779	6,451	9,230	61,142
Payroll taxes	12,212	10,464	22,676	7,604	14,638	22,242	44,918
Office expenses	11,533	10,741	22,274	13,069	6,661	19,730	42,004
Health insurance	16,937	17,217	34,154	781	4,401	5,182	39,336
State registrations and licenses	4,892	8,532	13,424	2,170	3,437	5,607	19,031
Printing	2,048	4,269	6,317	5,597	2,323	7,920	14,237
Postage	4,778	2,947	7,725	4,813	95	4,908	12,633
Bank and credit card fees	2,635	2,790	5,425	5,031	2,015	7,046	12,471
Insurance	4,105	4,210	8,315	1,409	1,172	2,581	10,896
Research communication and support	2,791	3,391	6,182	367	367	734	6,916
Telephone and internet	1,122	1,122	2,244	2,934	1,262	4,196	6,440
401(k) plan	1,652	1,602	3,254	750	1,667	2,417	5,671
Payroll processing fees	225	225	450	3,365	56	3,421	3,871
Miscellaneous	80	530	610	983	1,928	2,911	3,521
Depreciation and amortization	-	-	-	2,991	-	2,991	2,991
Total expenses	\$ 1,977,394	\$ 413,343	\$ 2,390,737	\$ 233,079	\$ 249,105	\$ 482,184	\$ 2,872,921

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

**Statements of Cash Flows
For the Years Ended March 31, 2023 and 2022**

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ (1,606,980)	\$ 801,878
Adjustments to reconcile change in net assets to net used in operating activities:		
Net realized and unrealized loss (gain) on investments	593,378	(454,966)
Donated investments	(158,289)	(910,047)
Depreciation and amortization	10,562	2,991
Amortization of right-of-use asset	54,972	-
Changes in operating assets and liabilities		
Receivables	(18,192)	30,896
Prepaid expenses and other assets	(21,349)	(14,575)
Accounts payable and accrued expenses	131,534	10,099
Lease liability	(60,538)	-
Deferred rent	-	(3,672)
	(1,074,902)	(537,396)
 Cash flows from investing activities		
Proceeds from sales of investments	1,681,619	3,263,072
Purchases of investments	(1,522,126)	(2,020,585)
Purchases of property and equipment	(4,485)	(28,795)
	155,008	1,213,692
 Net change in cash and cash equivalents	(919,894)	676,296
 Cash and cash equivalents, beginning of year	1,455,362	779,066
 Cash and cash equivalents, end of year	\$ 535,468	\$ 1,455,362
 Supplemental disclosures of cash flow information:		
Right-of-use asset recorded upon adoption of ASC 842	\$ 179,785	\$ -
Operating lease liability recorded upon adoption of ASC 842	\$ 204,206	\$ -
Reclassification of deferred rent upon adoption of ASC 842	\$ 24,421	\$ -

See accompanying notes to the financial statements.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements For the Years Ended March 31, 2023 and 2022

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 and autoimmune research grants to scientists at major universities and research institutes across America. One- and two-year arthritis research grants allow these early career 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 240 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”).

Reclassification

Certain amounts in the statements of activities and changes in net assets, functional expenses, and cash flows for the year ended March 31, 2022 have been reclassified to conform to the current year presentation.

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:

Without Donor Restrictions - Those net assets and activities which represent the portion of expendable funds that are available to support the Foundation’s operations. A portion of these net assets may be designated by the Board of Directors for specific purposes, and as of March 31, 2023 and 2022, the Foundation’s Board of Directors has designated \$250,000 for long-term purposes.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets (continued)

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. Donor-restricted net assets are described in Note 5.

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 and cash equivalents, receivables and accounts payable approximate fair value because of the short maturity of these instruments. The fair value of the Foundation's investments are described in Note 3.

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. Realized and unrealized gains and losses are included in the statements of activities and changes in net assets.

Property and Equipment

The Foundation capitalizes acquisitions of property and equipment with a cost or value in excess of \$5,000 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, which range from three to five 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 statements of activities and changes in net assets.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions and Bequests

The Foundation recognizes all unconditional contributions when they are received or unconditionally promised. When donations of securities are received in the form of contributions or bequests, it is the Foundation's policy to hold these investments, if unconditional, until it has been determined advantageous to sell them. 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. Conditional contributions are recognized when related conditions are substantially met.

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. Contributions with donor-imposed restrictions that are received and whose restrictions are satisfied in the same year as related funds are expended are reported as contributions without donor-imposed restrictions in the accompanying financial statements.

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.

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 years ended March 31, 2023 and 2022, contributed advertising services totaled \$109,636 and \$135,610, respectively.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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.

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 \$109,554 and \$140,213 for the years ended March 31, 2023 and 2022, respectively, and are included in communication and outreach on the statements of functional expenses.

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 uncertain income tax positions 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.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies (continued)

Concentrations of Risk

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

Cash and Cash Equivalents

The Foundation considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. The Foundation maintains its cash and cash equivalents in various bank 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 banking institutions to the extent amounts on deposit 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.

Contributions and Bequests

For the year ended March 31, 2023, no single donor provided greater than 10% of the Foundation's contributions and bequests revenues. For the year ended March 31, 2022, 13% of contributions and bequests revenues were received from one donor.

Functional Expense Allocations

The costs of providing program services 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 natural class of 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 as determined by management. Other expenses that require allocation are based on estimates of the benefits received.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) (“ASC 842”). ASU 2016-02 requires 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. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. ASU 2016-02 requires additional quantitative and qualitative financial statement note disclosures about the leases, significant judgments made in accounting for those leases and amounts recognized in the financial statements about those leases.

The Foundation adopted the requirements of ASC 842 effective April 1, 2022 and elected the modified retrospective method for all lease arrangements. For leases that commenced before the effective date of ASC 842, the Foundation elected the transition package of three practical expedients permitted within ASC 842, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification, and initial direct costs. The Foundation also elected the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of right-of-use assets. Further, the Foundation elected a short-term lease exception policy, permitting the Foundation to not apply the recognition requirements of this standard to short-term leases (i.e., leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets. In addition, the Foundation utilized a practical expedient, which allows non-public business entities to elect to use a risk-free rate as the discount rate.

The Foundation determines if an arrangement is a lease at inception. As a lessee, right-of-use assets represent the Foundation’s right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Operating lease right-of-use assets also include any lease payments made at or before lease commencement and exclude any lease incentives received. The lease terms used to calculate the right-of-use asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense.

As a result of adopting ASC 842 as of April 1, 2022, the Foundation recorded an operating lease right-of-use asset and related operating lease liability, based on the present value of the future lease payments on the date of adoption. There was no cumulative-effect adjustment recorded to net assets upon adoption. See Note 6 for further discussion of the Foundation’s adoption of ASC 842 and related disclosures.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

1. Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. ASU 2020-07 requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities and changes in net assets as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The Foundation adopted the requirements of ASU 2020-07 effective April 1, 2022.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13'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. Management is evaluating the impact of this guidance.

2. 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 are as follows:

Cash and cash equivalents	\$ 535,468
Receivables	30,000
Investments	<u>8,907,582</u>
Total financial assets	9,473,050
Less: Donor-restricted funds	(101,154)
Less: Board-designated funds	<u>(250,000)</u>
Total financial assets available to meet general expenditures within one year	<u><u>\$ 9,121,896</u></u>

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 estimated annual grants and operating costs. The investments in the table above are available to meet cash flow needs because they can be liquidated at any time.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

3. 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 were no changes to the valuation methodologies during the years ended March 31, 2023 and 2022.

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 United States Securities and Exchange Commission. 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.

Stocks and Exchange Traded Funds ("ETFs")

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

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

3. Fair Value Measurements (continued)

Stocks and Exchange Traded Funds (“ETFs”) (continued)

The Foundation’s ETFs hold assets such as stocks, commodities, or bonds. Investments in ETFs are included in Level 1 of the fair value hierarchy and their fair value is based on the closing price reported on the active market on which the respective securities are traded.

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 measured at fair value at March 31, 2023 and 2022 are as follows:

	As of March 31, 2023			Total
	Level 1	Level 2	Level 3	
Mutual funds	\$ 3,082,302	\$ -	\$ -	\$ 3,082,302
Stocks and ETFs	4,474,525	-	-	4,474,525
Corporate bonds	-	323,508	-	323,508
Government bonds	-	1,027,247	-	1,027,247
Total investments at fair value	\$ 7,556,827	\$ 1,350,755	\$ -	\$ 8,907,582
	As of March 31, 2022			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 3,949,017	\$ -	\$ -	\$ 3,949,017
Stocks and ETFs	4,667,632	-	-	4,667,632
Corporate bonds	-	480,215	-	480,215
Government bonds	-	405,300	-	405,300
Total investments at fair value	\$ 8,616,649	\$ 885,515	\$ -	\$ 9,502,164

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.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

3. Fair Value Measurements (continued)

Investment income is as follows for the years ended March 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Dividends and interest income	\$ 178,705	\$ 141,280
Realized gain on sale of investments	96,587	683,630
Unrealized loss on investments	<u>(689,965)</u>	<u>(228,664)</u>
	(414,673)	596,246
Less: investment fees	<u>(24,844)</u>	<u>(26,722)</u>
Total investment (loss) income	<u>\$ (439,517)</u>	<u>\$ 569,524</u>

4. Property and Equipment

Property and equipment at March 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 7,943	7,943
Leasehold improvements	5,601	5,601
Computer hardware and software	<u>31,661</u>	<u>27,176</u>
	45,205	40,720
Less: accumulated depreciation and amortization	<u>(14,629)</u>	<u>(4,067)</u>
Property and equipment, net	<u>\$ 30,576</u>	<u>\$ 36,653</u>

Depreciation and amortization expense for the years ended March 31, 2023 and 2022, were \$10,562 and \$2,991, respectively.

5. Net Assets with Donor Restrictions

The assets with donor restrictions consist of the following at March 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Ankylosing Spondylitis research	<u>\$ 101,154</u>	<u>\$ 226,104</u>

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

6. Commitments and Contingencies

Lease

In October 2019, the Foundation entered into a 66-month lease agreement for its office in Irvine, California, which commenced on December 1, 2019. The lease agreement has an extension option for one additional term of 60 months, commencing on the expiration date of the original lease term. Notice of extension must be given no less than nine months prior to the expiration of the original lease. As of the date these financial statements were prepared, management is not reasonably certain of exercising this option to extend. The lease is classified as an operating lease in conformity with ASC 842. Upon adoption of ASC 842 on April 1, 2022, the Foundation recognized an operating lease right-of-use asset in the amount of \$179,785 and related operating lease liability of \$204,206. The lease liability is measured at a discount rate of 2.61%.

Future minimum payments to be paid under the office lease as of March 31, 2023 are as follows:

For the Years Ending March 31,	
2024	\$ 66,961
2025	68,969
2026	11,722
Total operating lease payments	<u>147,652</u>
Less: imputed interest	<u>(3,984)</u>
Total operating lease liability	143,668
Less: current portion of operating lease liability	<u>(64,114)</u>
Operating lease liability, noncurrent	<u>\$ 79,554</u>

For the years ended March 31, 2023 and 2022, rent expense was \$62,382 and \$61,142, respectively.

Retirement Plan

The Foundation implemented a 401(k) Retirement Plan (the "Plan") during January 2022. The Plan covers all eligible employees with over three months of service. The Foundation's mandatory contribution to the Plan for the years ended March 31, 2023 and 2022 was \$21,945 and \$5,671, respectively.

ARTHRITIS NATIONAL RESEARCH FOUNDATION

Notes to Financial Statements (continued) For the Years Ended March 31, 2023 and 2022

6. Commitments and Contingencies (continued)

Contingencies

From time to time, the Foundation may be involved in legal and administrative proceedings and claims of various types. The Foundation records a liability in its financial statements for these matters when a loss is known and is considered probable, and the amount can be reasonably estimated. Management reviews these estimates in each reporting period as additional information becomes known and adjusts the loss estimate when appropriate. If a loss is probable but the amount of loss cannot be reasonably estimated, the Foundation discloses the loss contingency and an estimate of possible loss or range of loss (unless such an estimate cannot be made). Gain contingencies are not recognized until they are realized. Legal costs incurred in connection with loss contingencies are expensed as incurred.

7. Related Party Transactions

Two former members of the Board of Directors are the vice president and managing partner, respectively, of financial institutions that manage the Foundation's investments. Effective March 31, 2022, these two individuals are no longer members of the Board of Directors. During the years ended March 31, 2023 and 2022, \$24,844 and \$26,722 was paid to these financial institutions for investment and advisory fees.

8. Subsequent Events

The Foundation has evaluated all subsequent events through September 21, 2023, the date the financial statements were available to be issued. There are no events identified requiring recognition or disclosure in the financial statements.