



**ARTHRITIS**  
N A T I O N A L  
**RESEARCH**  
F O U N D A T I O N

**FINANCIAL STATEMENTS**  
**MARCH 31, 2013 AND 2012**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the  
Arthritis National Research Foundation

We have audited the accompanying financial statements of the Arthritis National Research Foundation (a California nonprofit corporation), which comprise the statements of financial position as of March 31, 2013 and 2012, and the related statements of activities, cash flows, and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 referred to above present fairly, in all material respects, the financial position of the Arthritis National Research Foundation as of March 31, 2013 and 2012, 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.

Long Beach, California  
August 7, 2013

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

	<b>ASSETS</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 810,535	\$ 600,423
Accrued interest receivable	13,014	9,681
Investments	7,277,265	7,027,156
Note receivable	<u>56,415</u>	<u>56,415</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,157,229</u></b>	<b><u>\$ 7,693,675</u></b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	<u>\$ 4,732</u>	<u>\$ 4,253</u>
<b>COMMITMENTS (Note 5)</b>		
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	4,158,837	4,200,105
Board designated endowment	<u>3,983,374</u>	<u>3,479,031</u>
Total Unrestricted	8,142,211	7,679,136
Permanently restricted	<u>10,286</u>	<u>10,286</u>
	<u>8,152,497</u>	<u>7,689,422</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,157,229</u></b>	<b><u>\$ 7,693,675</u></b>

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

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2013**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Public support			
Contributions and bequests	\$ 1,070,203		\$ 1,070,203
Total Public Support	<u>1,070,203</u>		<u>1,070,203</u>
Investment return			
Interest income	70,237		70,237
Dividend income	77,398		77,398
Gain on sale of investments	83,327		83,327
Unrealized gain on investments	<u>360,673</u>		<u>360,673</u>
Total Investment Return	<u>591,635</u>		<u>591,635</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>1,661,838</u>		<u>1,661,838</u>
<b>EXPENSES</b>			
Program Services			
Research	903,671		903,671
Education	<u>191,493</u>		<u>191,493</u>
Total Program Services	<u>1,095,164</u>		<u>1,095,164</u>
Supporting Services			
Management and general	76,740		76,740
Fund-raising	<u>26,859</u>		<u>26,859</u>
Total Supporting Services	<u>103,599</u>		<u>103,599</u>
<b>TOTAL EXPENSES</b>	<u>1,198,763</u>		<u>1,198,763</u>
<b>CHANGE IN NET ASSETS</b>	463,075		463,075
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>7,679,136</u>	\$ <u>10,286</u>	<u>7,689,422</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 8,142,211</u>	<u>\$ 10,286</u>	<u>\$ 8,152,497</u>

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

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2012**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Public support			
Contributions and bequests	\$ 1,516,453		\$ 1,516,453
Total Public Support	<u>1,516,453</u>		<u>1,516,453</u>
Investment return			
Interest income	69,161		69,161
Dividend income	60,982		60,982
Gain on sale of investments	307,372		307,372
Unrealized loss on investments	( 150,130)		( 150,130)
Total Investment Return	<u>287,385</u>		<u>287,385</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>1,803,838</u>		<u>1,803,838</u>
<b>EXPENSES</b>			
Program Services			
Research	1,034,303		1,034,303
Education	197,758		197,758
Total Program Services	<u>1,232,061</u>		<u>1,232,061</u>
Supporting Services			
Management and general	73,679		73,679
Fund-raising	28,565		28,565
Total Supporting Services	<u>102,244</u>		<u>102,244</u>
<b>TOTAL EXPENSES</b>	<u>1,334,305</u>		<u>1,334,305</u>
<b>CHANGE IN NET ASSETS</b>	469,533		469,533
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>7,209,603</u>	\$ 10,286	<u>7,219,889</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 7,679,136</u>	<u>\$ 10,286</u>	<u>\$ 7,689,422</u>

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

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended March 31,</b>	
	<u><b>2013</b></u>	<u><b>2012</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 463,075	\$ 469,533
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on sale of investments	( 83,327)	( 307,372)
Unrealized (gain) loss on investments	( 360,673)	150,130
Stock donation received	( 2,804)	
Increase in:		
Accrued interest receivable	( 3,333)	( 1,667)
Increase (decrease) in:		
Accounts payable	<u>479</u>	<u>( 1,193)</u>
Net Cash Provided By Operating Activities	<u>13,417</u>	<u>309,431</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	( 1,753,454)	( 2,806,513)
Proceeds from sale of investments	<u>1,950,149</u>	<u>2,657,247</u>
Net Cash Provided By (Used In) Investing Activities	<u>196,695</u>	<u>( 149,266)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	210,112	160,165
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>600,423</u>	<u>440,258</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 810,535</u>	<u>\$ 600,423</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, 2013**

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Research</u>	<u>Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total</u>	
Research grants	\$ 799,196		\$ 799,196				\$ 799,196
Grants for professional meetings	2,146	\$ 250	2,396				2,396
Awareness program		26,233	26,233	\$ 1,114	\$ 2,055	\$ 3,169	29,402
Salaries – Executive Director	43,858	53,412	97,270	9,722	8,007	17,729	114,999
Salaries – Other	19,949	24,296	44,245	5,189	3,644	8,833	53,078
Payroll tax	5,179	5,993	11,172	1,046	912	1,958	13,130
Health insurance	5,079	6,112	11,191	565	846	1,411	12,602
Office rent/parking	5,710	8,497	14,207	4,594	418	5,012	19,219
Telephone and internet	516	1,662	2,178	369	50	419	2,597
Website	3,078	7,978	11,056	2,170	2,950	5,120	16,176
Insurance	498	565	1,063	3,700	87	3,787	4,850
Investment fees				16,658		16,658	16,658
Advertising	1,270	32,969	34,239	1,185	2,720	3,905	38,144
Administration	1,269	11,899	13,168	15,819	2,519	18,338	31,506
Professional fees	9,600	1,450	11,050	11,000	2,000	13,000	24,050
Directories		1,191	1,191				1,191
Recognition	1,749	1,200	2,949	356	171	527	3,476
Dues and subscriptions		574	574	180	375	555	1,129
Printing	2,271	5,175	7,446	373	105	478	7,924
Board meetings	2,303	2,037	4,340	2,700		2,700	7,040
	<u>\$ 903,671</u>	<u>\$ 191,493</u>	<u>\$ 1,095,164</u>	<u>\$ 76,740</u>	<u>\$ 26,859</u>	<u>\$ 103,599</u>	<u>\$ 1,198,763</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, 2012**

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Research</u>	<u>Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total</u>	
Research grants	\$ 950,000		\$ 950,000				\$ 950,000
Grants for professional meetings	14,000		14,000				14,000
Awareness program		\$ 8,374	8,374		\$ 105	\$ 105	8,479
Salaries – Executive Director	29,000	57,142	86,142	\$ 9,692	9,667	19,359	105,501
Salaries – Other	13,449	26,536	39,985	4,530	4,482	9,012	48,997
Payroll tax	3,816	6,354	10,170	1,106	1,121	2,227	12,397
Health insurance	4,193	7,041	11,234	2,427	1,169	3,596	14,830
Office rent/parking	3,787	6,610	10,397	2,274	1,152	3,426	13,823
Telephone and internet	244	1,610	1,854	362	42	404	2,258
Website	3,599	8,003	11,602	3,202	686	3,888	15,490
Insurance	299	974	1,273	2,938	140	3,078	4,351
Investment fees				17,443		17,443	17,443
Advertising	5,395	47,116	52,511		3,699	3,699	56,210
Administration	1,257	12,724	13,981	14,481	5,880	20,361	34,342
Professional fees		1,000	1,000	12,500		12,500	13,500
Directories		1,198	1,198		138	138	1,336
Recognition	1,592	1,267	2,859	1,166	40	1,206	4,065
Dues and subscriptions		688	688	380	138	518	1,206
Printing	2,456	10,771	13,227	693	106	799	14,026
Board meetings	1,216	350	1,566	485		485	2,051
	<u>\$ 1,034,303</u>	<u>\$ 197,758</u>	<u>\$ 1,232,061</u>	<u>\$ 73,679</u>	<u>\$ 28,565</u>	<u>\$ 102,244</u>	<u>\$ 1,334,305</u>

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

## ARTHRITIS NATIONAL RESEARCH FOUNDATION

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2013 AND 2012

#### NOTE 1 – Summary of Significant Accounting 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 is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. At March 31, 2013 and 2012, the Foundation had no temporarily restricted net assets.

##### *Use of Estimates and Assumptions*

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The current economic environment has increased the degree of uncertainty in those estimates and assumptions.

##### *Concentration of Credit Risk – Cash*

At March 31, 2013 and throughout the year, the Foundation had cash balances in financial institutions in excess of federally insured limits.

##### *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.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2013 AND 2012**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

***Investments***

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. The valuation of marketable securities is based upon quoted market prices. Unrealized and realized gains and losses are included in the change in net assets in the accompanying statements of activities.

The Foundation's investments are exposed to various risks, such as market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

***Contributions***

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor imposed restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

***Legacies and Bequests***

The Foundation has been named as beneficiary in a number of bequests. Bequests are not recognized as support until all of the following conditions are met: the demise of the testator, the amount of the bequest is known, the Foundation is certain that, based on the estate's net assets, the amount bequeathed is realizable, and the probate court has declared the will valid.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2013 AND 2012**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

*Allocation of Functional Expenses*

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Income Taxes*

The Foundation has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Foundation recognizes the financial statement benefit of tax positions, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Foundation is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal purposes is three years and for California purposes is four years.

*Contributions In-Kind*

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

The Foundation received no in-kind support during the years ended March 31, 2013 and 2012.

*Concentrations – Contributions and Bequests*

For the year ended March 31, 2013, approximately 47% of contributions and bequests was from one donor. For the year ended March 31, 2012, approximately 71% of contributions and bequests was from one donor.

## ARTHRITIS NATIONAL RESEARCH FOUNDATION

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2013 AND 2012

#### **NOTE 1 – Summary of Significant Accounting Policies (Continued)**

##### *Subsequent Events*

The Foundation's management has evaluated subsequent events from the statement of financial position date through August 7, 2013, the date the financial statements were available to be issued for the year ended March 31, 2013, and determined that there were no other items to disclose.

#### **NOTE 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.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2013 AND 2012**

**NOTE 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, 2013 and 2012:

<u>March 31, 2013</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				
Large Blend	\$ 888,731	\$ 888,731		
Small Blend	462,871	462,871		
Mid-Cap Blend	453,168	453,168		
Foreign Large Blend	379,006	379,006		
Other Investments				
Domestic Stocks	2,275,378	2,275,378		
Corporate Bonds	1,181,421		\$ 1,181,421	
Foreign Bonds	159,638		159,638	
Certificates of Deposit	1,477,052		1,477,052	
	<u>\$ 7,277,265</u>	<u>\$ 4,459,154</u>	<u>\$ 2,818,111</u>	<u>None</u>

<u>March 31, 2012</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				
Large Blend	\$ 707,654	\$ 707,654		
Small Blend	355,793	355,793		
Mid-Cap Blend	355,764	355,764		
Foreign Large Blend	350,312	350,312		
Other Investments				
Domestic Stocks	2,048,527	2,048,527		
Corporate Bonds	1,172,460		\$ 1,172,460	
Foreign Bonds	149,760		149,760	
Municipal Bonds	200,816		200,816	
Certificates of Deposit	1,686,070		1,686,070	
	<u>\$ 7,027,156</u>	<u>\$ 3,818,050</u>	<u>\$ 3,209,106</u>	<u>None</u>

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2013 AND 2012**

**NOTE 3 – Note Receivable**

The note receivable is due from the trust of a donor, with interest due annually at 5%. The note will be paid in full to the Foundation on the date of sale of certain assets of the donor's estate. The outstanding balance of the note at March 31, 2013 and 2012 is \$56,415.

**NOTE 4 – Restrictions on Net Assets**

Net assets were restricted by donors or designated by the Foundation as follows:

	<u>March 31,</u>	
	<u>2013</u>	<u>2012</u>
Unrestricted net assets:		
Undesignated	\$ 4,158,837	\$ 4,200,105
Board designated endowment	<u>3,983,374</u>	<u>3,479,031</u>
Total Unrestricted Net Assets	<u>8,142,211</u>	<u>7,679,136</u>
Permanently restricted net assets:		
Endowment fund	<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>\$ 8,152,497</u>	<u>\$ 7,689,422</u>

**NOTE 5 – Commitments**

The Foundation leases commercial office space and office equipment under various terms through 2016 or on a month-to-month basis. The terms of the office space lease provide for payment of minimum annual rentals, with fixed increases in annual rents. Office and equipment rental expense for the years ended March 31, 2013 and 2012 was \$21,570 and \$15,466, respectively.

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2013 AND 2012**

**NOTE 5 – Commitments (Continued)**

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

<u>Year Ending March 31,</u>	
2014	\$ 17,595
2015	18,031
2016	17,460
2017	<u>2,640</u>
	<u>\$ 55,726</u>

**NOTE 6 – Endowment Funds**

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

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 THE FINANCIAL STATEMENTS  
MARCH 31, 2013 AND 2012**

**NOTE 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, 2013 and 2012 were as follows:

<u>March 31, 2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,479,031	None	\$ 10,286	\$ 3,489,317
Investment return:				
Investment income	45,125	\$ 478		45,603
Net appreciation (realized and unrealized)	209,218			209,218
Total investment return	254,343	478		254,821
Contributions	250,000			250,000
Appropriation of endowment assets for expenditure		( 478)		( 478)
Endowment net assets, end of year	<u>\$ 3,983,374</u>	<u>None</u>	<u>\$ 10,286</u>	<u>\$ 3,993,660</u>

**ARTHRITIS NATIONAL RESEARCH FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2013 AND 2012**

**NOTE 6 – Endowment Funds (Continued)**

*Investment Policy for Endowment Funds (Continued)*

<u>March 31, 2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,384,245	None	\$ 10,286	\$ 2,394,531
Investment return:				
Investment income	39,089	\$ 242		39,331
Net appreciation (realized and unrealized)	55,697			55,697
Total investment return	94,786	242		95,028
Contributions	1,000,000			1,000,000
Appropriation of endowment assets for expenditure		( 242)		( 242)
Endowment net assets, end of year	<u>\$ 3,479,031</u>	<u>None</u>	<u>\$ 10,286</u>	<u>\$ 3,489,317</u>