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**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

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**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Arthritis Foundation, Inc. Northern California Chapter

We have audited the accompanying Statement of Financial Position of Arthritis Foundation, Inc. Northern California Chapter (a nonprofit organization) as of December 31, 2008 and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Arthritis Foundation, Inc. Northern California Chapter's December 31, 2007 financial statements, and in our report dated March 14, 2008 we expressed an unqualified opinion on those financial statements

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Arthritis Foundation, Inc. Northern California Chapter's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes also examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arthritis Foundation, Inc. Northern California Chapter as of December 31, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

San Francisco, California  
March 19, 2009

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

STATEMENT OF FINANCIAL POSITION

December 31, 2008

With comparative totals at December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008</u>	<u>2007</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 227,150	\$ -	\$ -	\$ 227,150	\$ 201,771
Other receivable	16,099			16,099	97,920
Due from national office (Note 12)	132,948			132,948	121,292
Prepaid expenses	44,209			44,209	37,955
Investments (Note 3)	3,137,459	1,597,238	34,555	4,769,252	7,032,812
Property and equipment (Note 4)	17,178			17,178	15,366
<b>Total assets</b>	<u>\$ 3,575,043</u>	<u>\$ 1,597,238</u>	<u>\$ 34,555</u>	<u>\$ 5,206,836</u>	<u>\$ 7,507,116</u>
<b>Liabilities and net assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 31,775	\$ -	\$ -	\$ 31,775	56,029
Accrued liabilities (Note 5)	59,968			59,968	45,958
Due to national office (Note 12)	55,218			55,218	159,561
Unemployment liability (Note 6)	17,407			17,407	7,511
<b>Total liabilities</b>	<u>164,368</u>	<u>-</u>	<u>-</u>	<u>164,368</u>	<u>269,059</u>
<b>Net assets</b>					
Unrestricted (Note 2)	3,410,675			3,410,675	5,522,862
Temporarily restricted (Note 8)		1,597,238		1,597,238	1,680,640
Permanently restricted (Note 9)			34,555	34,555	34,555
<b>Total net assets</b>	<u>3,410,675</u>	<u>1,597,238</u>	<u>34,555</u>	<u>5,042,468</u>	<u>7,238,057</u>
<b>Total liabilities and net assets</b>	<u>\$ 3,575,043</u>	<u>\$ 1,597,238</u>	<u>\$ 34,555</u>	<u>\$ 5,206,836</u>	<u>\$ 7,507,116</u>

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

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

STATEMENT OF ACTIVITIES  
For the year ended December 31, 2008  
With comparative totals for the year ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008</u>	<u>2007</u>
<b>Revenue and support</b>					
Contributions	\$ 2,558,062	\$ 289,843	\$ -	\$ 2,847,905	\$ 3,096,742
Special events (net of expenses of \$142,230)	345,670			345,670	667,014
Interest and dividend income	165,786			165,786	186,731
Earned income	45,729			45,729	44,639
Miscellaneous income	6,018			6,018	13,059
Net assets released from program restrictions	373,245	(373,245)		-	-
<b>Total revenue and support</b>	<u>3,494,510</u>	<u>(83,402)</u>	<u>-</u>	<u>3,411,108</u>	<u>4,008,185</u>
<b>Expenses</b>					
Program services	2,791,253			2,791,253	2,881,024
Support services	802,706			802,706	837,972
<b>Total expenses</b>	<u>3,593,959</u>	<u>-</u>	<u>-</u>	<u>3,593,959</u>	<u>3,718,996</u>
<b>Change in net assets before loss (gain) on investments</b>	<u>(99,449)</u>	<u>(83,402)</u>	<u>-</u>	<u>(182,851)</u>	<u>289,189</u>
Loss (gain) on investments	<u>(2,012,738)</u>			<u>(2,012,738)</u>	<u>232,456</u>
<b>Change in net assets after loss (gain) on investments</b>	<u>(2,112,187)</u>	<u>(83,402)</u>	<u>-</u>	<u>(2,195,589)</u>	<u>521,645</u>
<b>Net assets, beginning of year</b>	<u>5,522,862</u>	<u>1,680,640</u>	<u>34,555</u>	<u>7,238,057</u>	<u>6,716,412</u>
<b>Net assets, end of year</b>	<u>\$ 3,410,675</u>	<u>\$ 1,597,238</u>	<u>\$ 34,555</u>	<u>\$ 5,042,468</u>	<u>\$ 7,238,057</u>

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

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the year ended December 31, 2008

With comparative totals for the year ended December 31, 2007

	Program Services				Support Services			Total Support Services	Total Expenses
	Research	Public Health Education	Professional Education & Training	Patient & Community Services	Total Program Services	Management & General	Fundraising		
Salaries	\$ 39,997	\$ 251,978	\$ 94,741	\$ 222,758	\$ 609,474	\$ 61,595	\$ 170,385	\$ 231,980	\$ 841,454
Payroll taxes and benefits	10,313	64,969	26,918	56,042	158,242	15,881	43,932	59,813	218,055
Total personnel costs	50,310	316,947	121,659	278,800	767,716	77,476	214,317	291,793	1,059,509
Peer reviewed research awards	371,250				371,250				371,250
Other awards and grants	300,000	10,700			310,700		2,000	2,000	312,700
Membership and direct response marketing		104,671			104,671		56,361	56,361	161,032
Professional fees and contract services	4,380	34,595	11,065	32,796	82,836	6,746	18,660	25,406	108,242
Occupancy	4,138	26,066	8,027	32,217	70,448	6,372	17,626	23,998	94,446
Meeting and conferences	1,110	31,919	14,607	19,669	67,305	1,710	8,734	10,444	77,749
Printing, publications, and artwork	251	55,096	2,748	1,244	59,339	386	14,093	14,479	73,818
Technology fees	3,024	19,054	5,867	15,001	42,946	4,658	12,884	17,542	60,488
Arthritis Today cost recovery		56,668			56,668				56,668
Postage, shipping, and delivery	216	31,084	1,030	2,816	35,146	333	5,927	6,260	41,406
Supplies	966	7,633	1,957	9,200	19,756	1,488	6,062	7,550	27,306
Miscellaneous	468	3,099	978	2,699	7,244	716	16,190	16,906	24,150
Insurance	1,197	7,542	2,322	5,937	16,998	1,843	5,099	6,942	23,940
Staff travel	479	7,144	1,103	5,787	14,513	737	5,978	6,715	21,228
Equipment lease and maintenance	745	4,691	3,840	4,560	13,836	1,147	3,172	4,319	18,234
Telephone	892	5,620	1,731	4,425	12,668	1,374	3,800	5,174	18,842
Advertising	250	11,575	485	1,240	13,550	385	2,968	3,353	16,903
Material expenses	72	5,969	139	1,196	7,376	110	4,179	4,289	11,665
Depreciation	415	2,613	805	2,057	5,890	639	1,767	2,406	8,296
Specific assistance to individuals		7,463			7,463				7,463
Volunteer travel	75	3,223	145	2,228	5,671	115	319	434	6,105
Data processing and accounting services	117	737	227	580	1,661	180	1,399	1,579	3,240
Membership dues and subscriptions	102	668	198	506	1,474	157	434	591	2,065
Taxes and licenses	86	545	168	428	1,227	133	368	501	1,728
Media development cost									
Total expenses before share expenses	740,543	755,322	179,101	423,386	2,098,352	106,705	402,337	509,042	2,607,394
Share expenses to National (Note 12)	425,149	164,106	17,274	86,372	692,901	164,106	129,558	293,664	986,565
<b>Total 2008 functional expenses</b>	<b>\$ 1,165,692</b>	<b>\$ 919,428</b>	<b>\$ 196,375</b>	<b>\$ 509,758</b>	<b>\$ 2,791,253</b>	<b>\$ 270,811</b>	<b>\$ 531,895</b>	<b>\$ 802,706</b>	<b>\$ 3,593,959</b>
Total 2007 functional expenses	\$ 1,171,345	\$ 1,059,832	\$ 177,138	\$ 472,709	\$ 2,881,024	\$ 236,835	\$ 601,137	\$ 837,972	\$ 3,718,996

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

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

STATEMENT OF CASH FLOWS

For the year ended December 31, 2008

With comparative totals for the year ended December 31, 2007

	2008	2007
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (2,195,589)	\$ 521,645
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	8,296	5,721
Donated investments	(25,334)	(128,186)
Loss (gain) on investments	2,012,735	(232,456)
Changes in operating assets and liabilities:		
(Increase) decrease in other receivable	81,821	(93,845)
(Increase) decrease in due to national	(11,656)	290,980
(Increase) in prepaid expenses	(6,254)	(3,956)
Increase (decrease) in accounts payable	(24,254)	15,667
Increase (decrease) in accrued liabilities	14,010	(17,380)
Increase (decrease) in due to national office	(104,343)	52,688
Increase in unemployment liability	9,896	7,511
<b>Net cash provided (used) by operating activities</b>	<b>(240,672)</b>	<b>418,389</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	664,260	461,070
Purchase of investments	(388,101)	(1,020,108)
Purchase of property and equipment	(10,108)	-
<b>Net cash provided (used) by investing activities</b>	<b>266,051</b>	<b>(559,038)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>25,379</b>	<b>(140,649)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>201,771</b>	<b>342,420</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 227,150</b>	<b>\$ 201,771</b>

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

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

NOTES TO FINANCIAL STATEMENTS

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**1. Organization**

The Arthritis Foundation, Inc. Northern California Chapter (the "Chapter") is a nonprofit voluntary health and welfare agency by charter of the National Arthritis Foundation ("Arthritis Foundation").

The Chapter was founded in 1948 and incorporated in 1951. The Arthritis Foundation funds research to find the causes and cures of the many forms of arthritis, educate health professionals and others in the community about arthritis, and offers a number of programs and services to improve the quality of life for people living with arthritis.

The mission of the Arthritis Foundation is to improve lives through leadership in the prevention, control, and cure of arthritis, and related diseases.

The Chapter provides public health education and community service programs designed to empower people to take their personal health into their own hands and to help reduce the occurrence and effects of arthritis and related diseases. These valuable programs help people gain knowledge, and access to resources and tools that encourage arthritis sufferers to take positive action in managing their disease.

The Arthritis Foundation's programs include the following:

Research

Seeking the causes, cure, and prevention of the various forms of arthritis is a major activity of the Arthritis Foundation, with many research projects at both the University of California Medical Center, San Francisco, and Stanford University Medical Center (as well as nationwide) being funded by the Arthritis Foundation. The Arthritis Foundation is committed to funding arthritis-related research and influencing public and private policy and decision-making regarding research funding and access to care. During 2008, the Chapter implemented a plan to fund research grants and fellowships by spending down unrestricted net assets.

Public Health Education Program

- A variety of educational brochures, books, newsletters, video and audio tapes
- Public forums, workshops, and symposiums designed for targeted audiences
- Speakers' bureau, health fairs, media relations
- Information and referral services

Patient and Community Services Program

- Arthritis Foundation Aquatic Programs
- Arthritis Foundation Exercise Programs
- Education and support groups
- Special programs for children with arthritis, including Activity Days and Summer Camp

continued

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

NOTES TO FINANCIAL STATEMENTS

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**1. Organization, continued**

Professional Education and Training Program

- Continuing Medical Education programs for physicians, as well as numerous physicians and physician-outreach activities
- Special publications for physicians and allied health professionals to educate them about the diagnosis and treatment of the various forms of arthritis.

**2. Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

**Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting.

**Accounting**

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Chapter are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

**Unrestricted.** These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

**Temporarily Restricted.** The Chapter reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

**Permanently Restricted.** These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Chapter to expend all of the income (or other economic benefits) derived from the donated assets.

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

NOTES TO FINANCIAL STATEMENTS

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**2. Summary of Significant Accounting Policies, continued**

**Cash and Cash Equivalents**

The Chapter has defined as cash in banks and certificates of deposits with an original maturity of three months or less.

**Contributions and Pledges Receivable**

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenue in the period received. The Chapter reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. The Chapter has no pledges receivable at December 31, 2008.

**Investments**

The Chapter values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain (loss) on investments. Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

**Concentration of Credit Risks**

The Chapter places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Chapter has not incurred losses related to these investments.

The Chapter holds investments in the form of securities and money market funds. The Board of Directors routinely reviews market values of these investments.

**Property and Equipment**

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than three years.

**Income Taxes**

The Chapter is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

NOTES TO FINANCIAL STATEMENTS

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**2. Summary of Significant Accounting Policies, continued**

**Functional Allocation of Expenses**

Costs of providing the Chapter's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Chapter uses full-time equivalents to allocate indirect costs.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented.

**Comparative Totals**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Chapter's financial statements for the year ended December 31, 2007 from which the summarized information was derived.

**3. Investments**

Investments at December 31, 2008 consist of the following:

Equities	\$3,540,861
Fixed income	1,148,229
Money market funds	<u>80,162</u>
	<u>\$4,769,252</u>

**4. Property and Equipment**

Property and equipment at December 31, 2008 consist of the following:

Office equipment and furnishing	\$ 59,881
Computer equipment	8,884
Leasehold improvements	<u>6,186</u>
	74,951
Less: accumulated depreciation	<u>(57,773)</u>
	<u>\$ 17,178</u>

continued

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

NOTES TO FINANCIAL STATEMENTS

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**5. Accrued Liabilities**

Accrued liabilities at December 31, 2008 consist of the following:

Accrued vacation	\$49,624
Other accrued liabilities	<u>10,344</u>
	<u>\$59,968</u>

**6. Accrued Unemployment Liability**

The Chapter has elected to be self-insured for the purposes of California State Unemployment Insurance. Estimated accrued unemployment liability at December 31, 2008, of \$17,407, represents estimated future claims arising from payroll paid to date. Unemployment expense for the year ended December 31, 2008 was \$14,129.

**7. Commitments and Contingencies**

**Obligations Under Operating Leases**

The Chapter leases an office space and equipment under operating leases with various terms. Future minimum payments, by year and in aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2009	\$ 82,712
2010	29,883
2011	10,078
2012	<u>3,068</u>
	<u>\$125,741</u>

Rent expense under operating lease for the year ended December 31, 2008 was \$79,740.

continued

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

NOTES TO FINANCIAL STATEMENTS

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2008 consist of the following:

Northern California juvenile arthritis programs	\$1,388,363
UCSF pediatric fellowship	62,524
Adult fellowship	50,000
Research	31,599
Braddock Foundation	20,076
Education	15,000
Northern California programs	9,200
Doc in a box program	5,000
Fremont aquatic program	5,000
Monterey County programs	5,000
Fit and Strong	3,252
Advocacy	2,224
	<u>\$1,597,238</u>

**9. Permanently Restricted Net Assets**

Permanently restricted net assets at December 31, 2008 consist of an endowment fund in the amount of \$34,555.

**10. Employee Benefit Plan**

The Chapter has a qualified defined contribution retirement plan covering all employees who are at least twenty-one years old and have two or more years of service. The Chapter contributes 6% of each eligible employee's compensation in accordance with plan provisions. Employer contributions under this plan for the year ended December 31, 2008 were \$41,659.

**11. Joint Costs**

The Chapter incurred joint costs for informational materials and activities that included fund-raising appeals such as direct mailing. Joint costs for the year ended December 31, 2008 were allocated as follows:

Public health education	\$104,671
Fundraising	<u>56,361</u>
	<u>\$161,032</u>

continued

**ARTHRITIS FOUNDATION, INC.  
NORTHERN CALIFORNIA CHAPTER**

NOTES TO FINANCIAL STATEMENTS

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**12. Related Party Transactions**

The Chapter is required to share 27, 35, and 45% of unrestricted support and bequests (less certain allowances) to the Arthritis Foundation, Inc. National Office (the "National Office"). Share expense for the year ended December 31, 2008 was \$986,565. The outstanding amount due to the National Office at December 31, 2008 was \$55,218. The share expenses was used as follows:

Research	\$425,148
Public information and health education	164,106
Management and general	164,106
Fund raising	129,558
Patient and community services	86,372
Professional education and training	<u>17,274</u>
	<u>\$986,565</u>

The Chapter is also allocated a portion of certain contributions received by the National Office. Total contributions received from the National Office for the year ended December 31, 2008 was \$631,071. The outstanding amount due from the National Office at December 31, 2008 was \$132,948.

The Chapter reimburses the National Office for a portion of costs associated with Arthritis Today, the organization's magazine, direct mail program, computer system support, employee health insurance, liability insurance, and educational and promotional materials. Total cost reimbursements to the National Office for the year ended December 31, 2008 was \$289,853. The outstanding amount payable to the National Office at December 31, 2008 was \$5,286.