Financial Statements

For the Year Ended December 31, 2009
(With Summarized Financial Information for the Year Ended December 31, 2008)

and
Report Thereon

RAFFA

CONSULTING
ACCOUNTING
TECHNOLOGY

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
National Osteoporosis Foundation

We have audited the accompanying statement of financial position of the National Osteoporosis Foundation (the Foundation) as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation'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 the Foundation's 2008 financial statements and, in our report dated June 29, 2009, 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 the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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 the Foundation as of December 31, 2009, 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.

Raffa, P.C.

RAFFA, P.C.

Washington, DC
July 30, 2010

NATIONAL OSTEOPOROSIS FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2009

(With Summarized Financial Information as of December 31, 2008)

	2009	2008
ASSETS		
Cash and cash equivalents	$ 4,835,021	$ 279,770
Accounts receivable	398,214	222,883
Grants and contributions receivable	649,875	982,182
Investments	1,115,268	1,193,331
Prepaid expenses	146,984	163,294
Inventory	107,340	83,020
Segregated bond reserve funds	-	154,096
Cash surrender value of life insurance	-	18,994
Bond issuance costs, net of accumulated amortization of $22,977 at December 31, 2008	-	49,582
Property and equipment, net of accumulated depreciation and amortization of $410,597 and $2,071,404	93,315	5,262,230
TOTAL ASSETS	$ 7,346,017	$ 8,409,382
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 498,817	$ 518,213
Deferred revenue	176,957	240,290
Capital lease obligations	21,128	39,453
Bonds payable	-	3,415,000
Interest rate swap contract	-	518,378
Bank line of credit payable	-	500,000
Total Liabilities	696,902	5,231,334
NET ASSETS		
Unrestricted	5,389,120	1,303,369
Temporarily restricted	1,079,983	1,694,667
Permanently restricted	180,012	180,012
Total Net Assets	6,649,115	3,178,048
TOTAL LIABILITIES AND NET ASSETS	$ 7,346,017	$ 8,409,382

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

NATIONAL OSTEOPOROSIS FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2009
(With Summarized Financial Information for the Year Ended December 31, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
REVENUE AND SUPPORT					
Gain on sale of property and equipment, net of direct expenses of $464,864	$ 4,834,277	$ -	$ -	$ 4,834,277	$ -
Grants and contributions	1,397,130	98,516	-	1,495,646	2,211,765
Legacies and bequests	806,089	113,821	-	919,910	1,043,260
Royalty and educational income	658,459	-	-	658,459	288,939
International Symposium on Osteoporosis	484,894	42,500	-	527,394	170,000
Annual dinner and other special events	415,784	-	-	415,784	896,245
Investment income (loss)	225,643	-	-	225,643	(442,531)
Publications sales	196,269	-	-	196,269	206,983
Membership dues	117,126	-	-	117,126	132,210
Unrealized gain (loss) on interest rate swap	114,644	-	-	114,644	(205,648)
Miscellaneous income	54,064	-	-	54,064	39,523
Donated services and materials	48,943	-	-	48,943	118,916
Rental income	42,395	-	-	42,395	80,468
Federal grants and contracts	25,000	-	-	25,000	306,821
Net assets released from restrictions:					
Satisfaction of program restrictions	357,008	(357,008)	-	-	-
Satisfaction of time restrictions	512,513	(512,513)	-	-	-
TOTAL REVENUE AND SUPPORT	10,290,238	(614,684)	-	9,675,554	4,846,951
EXPENSES					
Program Services					
Professional education	1,497,451	-	-	1,497,451	1,286,443
Patient education	1,142,060	-	-	1,142,060	1,262,544
Communications	679,343	-	-	679,343	689,395
Public policy	587,917	-	-	587,917	1,081,484
Membership	319,216	-	-	319,216	322,447
Research	1,578	-	-	1,578	261,905
National Resource Center	-	-	-	-	260,338
Total Program Services	4,227,565	-	-	4,227,565	5,164,556
Supporting Services					
Management and general	577,934	-	-	577,934	531,947
Fundraising	1,398,988	-	-	1,398,988	1,705,131
Total Supporting Services	1,976,922	-	-	1,976,922	2,237,078
TOTAL EXPENSES	6,204,487	-	-	6,204,487	7,401,634
CHANGE IN NET ASSETS	4,085,751	(614,684)	-	3,471,067	(2,554,683)
NET ASSETS, BEGINNING OF YEAR	1,303,369	1,694,667	180,012	3,178,048	5,732,731
NET ASSETS, END OF YEAR	$ 5,389,120	$ 1,079,983	$ 180,012	$ 6,649,115	$ 3,178,048

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

NATIONAL OSTEOPOROSIS FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2009
(With Summarized Financial Information for the Year Ended December 31, 2008)
Increase (Decrease) in Cash and Cash Equivalents

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,471,067	$ (2,554,683)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gain) loss on investments	(189,068)	516,209
Unrealized (gain) loss on interest rate swap contract	(114,643)	205,648
Donation of securities	(207,574)	(7,206)
Gain on sale of property and equipment	(5,299,141)	-
Depreciation and amortization	197,854	214,475
Changes in assets and liabilities:		
Accounts receivable	(175,331)	243,418
Grants and contributions receivable	332,307	(491,002)
Prepaid expenses	16,310	(23,676)
Cash surrender value of life insurance	18,994	529
Inventory	(24,320)	(1,642)
Accounts payable and accrued expenses	(19,396)	100,418
Deferred revenue	(63,333)	177,559
NET CASH USED IN OPERATING ACTIVITIES	(2,056,274)	(1,619,953)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of property and equipment	10,415,000	-
Purchases of property and equipment	(95,216)	(59,969)
Proceeds from sales of investments	647,031	1,247,234
Purchases of investments	(172,326)	(435,284)
NET CASH PROVIDED BY INVESTING ACTIVITIES	10,794,489	751,981
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(18,325)	(16,692)
Decrease (increase) in segregated bond reserve funds	154,096	(4,425)
Principal payments on bonds	(3,415,000)	(115,000)
Payment to terminate interest rate swap contract	(403,735)	-
Payment on line of credit	(500,000)	-
Proceeds from line of credit	-	500,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(4,182,964)	363,883
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,555,251	(504,089)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	279,770	783,859
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,835,021	$ 279,770
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 124,956	$ 181,497
Donated stock	$ 207,574	$ 7,206

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

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2009

1. Organization and Summary of Significant Accounting Policies

Organization

The National Osteoporosis Foundation (the Foundation) is America's only national nonprofit, voluntary health organization dedicated to reducing the widespread prevalence of osteoporosis through programs of research, education and advocacy. Founded in 1984, the Foundation has become the leading authority for patients, health professionals, and the public for osteoporosis information, programs, and services. The Foundation is supported primarily by grants and contributions from foundations, corporations, individuals, the government and fundraising events.

New Accounting Pronouncement

Effective January 1, 2009, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 105-10, *FASB Codification* (the Codification). The Codification is the single source of authoritative US generally accepted accounting principles (GAAP). Accordingly, references to GAAP have been updated for the appropriate Codification reference.

Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less as cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management closely monitors outstanding balances and writes off balances that are deemed uncollectible, if any. Consequently, no bad debt allowance has been recorded.

Investments

Investments consist of corporate bonds, mutual funds and equities. Investments are reflected in the financial statements at fair value. Fair value is the price that 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. Purchases and sales of investments are recorded on a trade date basis. Investment income is recorded as an increase in unrestricted net assets, unless restricted by donor or law. Investment securities are exposed to various risks such as interest rate, market and credit risks. Accordingly, it is at least reasonably possible that changes in investment values will occur in the near term, and such changes could affect balances and amounts reported in the accompanying statement of financial position.

Continued

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

Fair Value of Financial Instruments

In accordance with the accounting standards for fair value measurements for those assets and liabilities which are measured at fair value on a recurring basis, the Foundation has categorized its applicable financial instruments into a required three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

> *Level 1*—Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access.
>
> *Level 2*—Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
>
> *Level 3*—Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of December 31, 2009, only the Foundation's investments were measured at fair value on a recurring basis.

Effective January 1, 2009, the Foundation adopted the fair value measurement standards for nonfinancial assets and liabilities, which had no material effect on the accompanying financial statements.

Property and Equipment and Related Depreciation and Amortization

Property and equipment are recorded at cost or, if donated, at the fair value on the date of the donation. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the respective asset. Equipment under a capital lease is amortized over the term of the lease. Depreciation is computed using the following estimated useful lives: building and improvements, 30 years; furniture and fixtures, 5-7 years and office equipment, 3-5 years. When assets are retired or sold, any gain or loss arising from such

Continued

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

Property and Equipment and Related Depreciation and Amortization (continued)

disposition is included as income or expense. Expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization expense for the year ended December 31, 2009 was $197,854.

Deferred Revenue

Deferred revenue consists of prepaid conference fees and special events fees for the following fiscal year. Conference and special events fees are recognized in the year the event takes place.

Classification of Net Assets

The net assets of the Foundation are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Foundation's general operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various programs or for future periods.
- Permanently restricted net assets represent the portion of net assets subject to donor-imposed stipulations that the gift be maintained in perpetuity by the Foundation. The donors of these assets permit the Foundation to use all of the income earned on related investments for specific purposes.

Accounting for Derivatives

The Foundation has adopted the accounting standards for derivative instruments and hedging activities. The change in the fair value of the interest rate swap is recognized in the statement of activities. The swap agreement was settled as of December 31, 2009.

Revenue Recognition

The Foundation reports grants and contributions as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose 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 restrictions. When a donor restriction is fulfilled in the same year as the contribution is received, the contribution is recognized as unrestricted support.

Wills are recorded as legacies and bequests revenue upon death after the probate courts declare the wills to be valid and the proceeds are measurable.

Continued

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

Revenue Recognition (continued)

Special events revenue is recognized in the year in which the related events are held. Amounts, other than donations, collected for future events are classified as deferred revenue in the accompanying statement of financial position.

Donated Services and Materials

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that are provided by individuals possessing specialized skills are recorded at fair value in the period received if such services would typically be purchased if not provided by donation.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services directly benefited, or upon management's estimates of the proportion of these costs applicable to each function.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Contributions Receivable

Grants and contributions receivable represent amounts due from bequests, a charitable remainder annuity trust and individual pledges and are scheduled to be received as follows:

Within one year	$ 560,207
Within two to five years	50,000
Thereafter	39,668
Total	$ 649,875

All amounts are considered fully collectible.

Continued

3. Investments

The Foundation's investments consist of the following at December 31, 2009:

	Fair Value
Equity mutual funds	$ 945,029
Corporate bonds	108,121
Fixed-income mutual funds	59,952
Equities	2,166
Total investments	$ 1,115,268

Investment income consists of the following for the year ended December 31, 2009:

Interest and dividends	$ 38,582
Net realized and unrealized gains	189,068
Transaction fees	(2,007)
Total investment income	$ 225,643

Investment income includes $31,477 earned from cash equivalents.

4. Property and Equipment and Accumulated Depreciation and Amortization

The Foundation held the following property and equipment as of December 31, 2009:

Office equipment including equipment under capital leases	$ 423,175
Furniture and fixtures	80,737
Total property and equipment	503,912
Less: Accumulated depreciation and amortization	(410,597)
Property and equipment, net	$ 93,315

5. Temporarily Restricted Net Assets

As of December 31, 2009, temporarily restricted net assets were available for the following purposes:

Programs	$ 521,171
Time restricted	488,230
Special events	70,582
Total temporarily restricted net assets	$ 1,079,983

Continued

6. Permanently Restricted Net Assets

The Foundation's endowment consists of donor-restricted endowment funds which are shown as permanently restricted net assets in the accompanying financial statements. As of December 31, 2009, the permanently restricted net assets totaled $180,012 and the income earned on these nets assets is restricted by the donor. The Shou Mei Hu – Cecelia Wu Kojima Fund totaled $80,012 and the restricted income is for medical and scientific research related to the prevention, cure, and/or treatment of osteoporosis. The Dr. Burton Spiller Fund for Bone Health Research totaled $100,000 and the restricted income is for medical research regarding bone health and bone research grants.

During the year ended December 31, 2009, there were investment gains on these funds totaling $271. Investment earnings on endowment funds are expended for the restricted purpose required in the year earned, if possible. However, the Foundation did not award research grants in 2009.

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date 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 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 Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

7. Sale of Building

The Foundation's headquarters building in Washington, DC was financed principally with the proceeds of revenue bonds. The bonds required the Foundation to meet certain financial covenants. An event of default occurred under the loan agreement as a result of the failure to maintain a debt service coverage ratio of at least 1.10 to 1.00 for the years ended December 31, 2007 and 2008. As a result of the non-compliance, the Bank issued a request for repayment of all obligations by July 31, 2009. However, since the Foundation had proactively notified the bank of the anticipated 2008 non-compliance, the Bank issued a forbearance agreement that included a Waiver of the debt service coverage ratio default, subject to certain required

Continued

7. Sale of Building (continued)

deliverables. The Forbearance period extended until June 30, 2009, with the promise of an additional extension to September 30, 2009, if the Foundation successfully complied with the requirements of the Agreement. The Foundation did comply and the Bank later provided the promised 90 day extension. The building was sold and had a closing date within the specified time frame for a sale price of $10,415,000, resulting in a gain of $4,834,277. During the year ended December 31, 2009, the Foundation paid the building related debt, which included bonds payable of $3,415,000, the outstanding line of credit of $500,000 and the termination fee for the interest rate swap contract in the amount of $403,735. The Foundation leased office space for its headquarters, as described in Note 9.

8. Retirement Plans

The Foundation sponsors a tax-deferred annuity plan covering all employees who have completed a year of service by the entry date of the Plan. Employer contributions to the Plan are discretionary and vest 25% after each full year of employment. The Plan has a three-tiered employer contributions rate schedule based on years of service with a percentage rate to be determined annually by the Board. The Board of Directors did not approve contributions to the plan for the year ended December 31, 2009.

9. Commitment and Contingencies

Operating Lease

In September 2009, the Foundation entered into a sublease agreement for furnished office space in Washington D.C. The sublease commenced on September 15, 2009, and will expire on June 30, 2015. Under the terms of the lease, the base rent is subject to an annual increase of 5%. As part of the lease agreement, the Foundation was required to obtain an irrevocable standby letter of credit in the amount of $168,000. The letter of credit was issued on September 14, 2009, and will expire on August 31, 2010. The letter of credit automatically renews for 12-month periods through August 31, 2015.

Under accounting principles generally accepted in the United States of America, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is not material to the financial statements taken as a whole, thus not reflected as deferred rent in the accompanying statement of financial position.

Continued

9. Commitment and Contingencies (continued)

Operating Lease (continued)

Future minimum lease payments required under the lease are as follows as of December 31, 2009:

For the Years Ending December 31,	
2010	$ 272,771
2011	286,409
2012	300,730
2013	315,766
Thereafter	503,087
Total	$ 1,678,763

Rent expense for the year ended December 31, 2009 totaled $108,832.

Capital Leases

The Foundation leases certain office equipment under capital lease agreements, the last of which expires in December 2011. This equipment is included in property and equipment at a cost of $83,713 with accumulated amortization of $64,539 as of December 31, 2009. The future minimum lease payments required under the capital leases as of December 31, 2009 are as follows:

For the Years Ending December 31,	
2010	$ 20,216
2011	2,114
Total future minimum lease payments	22,330
Less: Amount representing interest	(1,202)
Present value of net minimum lease payments	$ 21,128

Continued

10. Fair Value Measurements

The following tables summarize the Foundation's assets measured at fair value on a recurring basis as of December 31, 2009:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity mutual funds	$ 945,029	$ 945,029	$ -	$ -
Corporate bonds	108,121	-	108,121	-
Fixed-income mutual funds	59,952	59,952	-	-
Equities	2,166	2,166	-	-
Total	$ 1,115,268	$ 1,007,147	$ 108,121	$ -

The Foundation used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Equities and Mutual Funds—Where quoted prices are available in an active market for identical assets, investments are classified within Level 1 of the valuation hierarchy.

Corporate Bonds—The Foundation uses quoted market prices for similar assets in an active market.

11. Allocation of Joint Costs

The Foundation conducts activities that include requests for contributions as well as program and management and general components. Those activities include direct mail campaigns and special events. The costs of conducting those activities for the year ended December 31, 2009 included joint costs which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

Fundraising	$ 335,126
Program	252,513
Management and general	29,871
Total joint costs	$ 617,510

12. Related Parties

A member of the Board of Trustees is an employee of a brokerage firm which holds one of the Foundation's investment accounts. No fees are paid to the firm beyond trading commissions. The member has no discretionary trading authority.

13. Income taxes

The Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code. The Foundation has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The Foundation files Federal Forms 990 and 990-T tax returns in the U.S. federal jurisdiction and in various states. The Foundation generates unrelated business income from debt financed property.

Effective January 1, 2009, the Foundation adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not' for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Foundation performed an evaluation of uncertain tax positions for the year ended December 31, 2009, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of December 31, 2009, the statute of limitations for tax years 2006 though 2008 remains open in the major US taxing jurisdictions or the various states and local jurisdictions in which the Foundation is subject to taxation and files tax returns. The Foundation's policy is to recognize interest and/or penalties related to income tax matters in income tax expense.

14. Reclassifications

During 2009, management revised the methodology for functional allocation to be based on direct salaries. The 2008 allocation was revised to conform to the 2009 methodology and is reflected in the 2008 summarized financial statements. Additional reclassifications were made to the 2008 financial statement balances to conform to the 2009 financial statement presentation.

Continued

15. Subsequent Events

The Foundation's management has evaluated events and transactions for potential recognition or disclosure through July 30, 2010, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.