RHEUMATOLOGY RESEARCH FOUNDATION

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

RHEUMATOLOGY RESEARCH FOUNDATION

Table of Contents

June 30, 2013 and 2012

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report

The Board of Directors
Rheumatology Research Foundation

Report on the Financial Statements

We have audited the accompanying statements of financial position of the Rheumatology Research Foundation (the "Foundation") as of June 30, 2013 and 2012 and the related statements of activities, functional expenses and cash flows 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 the 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 the 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 Foundation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Atlanta, Georgia
October 9, 2013

225 Peachtree Street NE, Suite 600, Atlanta, GA 30303 | T 404.575.8900 | F 404.575.8870 | dhgllp.com

RHEUMATOLOGY RESEARCH FOUNDATION

Statements of Financial Position

June 30, 2013 and 2012

		2013		2012
Assets:				
Cash and cash equivalents	$	14,279,043	$	14,136,005
Investments		38,709,309		35,945,546
Contributions and grants receivable, net		17,695,397		17,946,163
Prepaid expenses and other assets		17,450		25,492
Property and equipment, less accumulated depreciation of $62,600 and $45,226 in 2013 and 2012, respectively		215,059		68,851
Total assets	$	70,916,258	$	68,122,057
Liabilities:				
Accounts payable	$	374,379	$	312,124
Net assets:				
Donor restricted:				
Temporarily restricted		36,842,513		34,999,458
Permanently restricted		2,305,795		2,305,795
Other:				
Designated by board for education and research awards		24,412,241		22,831,651
Unrestricted		6,981,330		7,673,029
Total net assets		70,541,879		67,809,933
Total liabilities and net assets	$	70,916,258	$	68,122,057

See accompanying notes to financial statements.

RHEUMATOLOGY RESEARCH
FOUNDATION

Statements of Activities

For the Years Ended June 30, 2013 and 2012

	2013	2012
Changes in unrestricted net assets:		
Revenue:		
Gifts and grants	$ 1,633,843	$ 1,159,674
Investment and interest income	774,707	665,665
Net realized and unrealized gains (losses) on investments	2,194,273	(994,908)
Miscellaneous income	(14,216)	57,523
Net assets released from restriction	10,264,939	6,889,007
Total unrestricted revenues	14,853,546	7,776,961
Expenses:		
Program services - research and education	12,182,322	8,031,395
Support services:		
Administrative	704,994	293,128
Fundraising	1,077,339	885,453
Total support services	1,782,333	1,178,581
Total expenses	13,964,655	9,209,976
Change in unrestricted net assets	888,891	(1,433,015)
Changes in temporarily restricted net assets:		
Gifts and grants	11,325,622	17,199,854
Investment and interest income	200,521	193,225
Net realized and unrealized gains (losses) on investments	567,635	(263,872)
Net assets released from restriction	(10,264,939)	(6,889,007)
Miscellaneous income	14,216	-
Change in temporarily restricted net assets	1,843,055	10,240,200
Change in net assets	2,731,946	8,807,185
Net assets at beginning of year	67,809,933	59,002,748
Net assets at end of year	$ 70,541,879	$ 67,809,933

See accompanying notes to financial statements.

RHEUMATOLOGY RESEARCH FOUNDATION

Statement of Functional Expenses

For the Years Ended June 30, 2013 and 2012

	Program Services	Support Services		Total	
	Research and Education	Administrative	Fundraising	2013	2012
Awards	$ 11,006,968	$ -	$ -	$ 11,006,968	$ 6,809,214
Professional fees	33,898	221,414	102,455	357,767	211,085
Management fees	810,439	295,899	635,138	1,741,476	1,407,753
Printing	36,334	18,668	56,317	111,319	92,588
Travel	180,113	62,457	105,658	348,228	355,770
Meetings/conferences	84,080	43,187	117,459	244,726	193,184
Postage	6,476	2,529	13,326	22,331	25,450
Supplies	8,534	5,768	4,490	18,792	20,356
Depreciation expense	10,424	3,475	3,475	17,374	9,189
Staff education	1,808	13,291	9,500	24,599	29,892
Equipment rental	2,903	20,118	28,707	51,728	38,675
Telephone	345	175	139	659	1,446
Miscellaneous expenses	-	18,013	675	18,688	15,374
	$ 12,182,322	$ 704,994	$ 1,077,339	$ 13,964,655	$ 9,209,976

See accompanying notes to financial statements.

RHEUMATOLOGY RESEARCH FOUNDATION

Statement of Functional Expenses

For the Years Ended June 30, 2012 and 2011

	Program Services	Support Services		Total	
	Research and Education	**Administrative**	**Fundraising**	**2012**	**2011 (Memo only)**
Awards	$ 6,809,214	$ -	$ -	$ 6,809,214	$ 9,558,495
Professional fees	47,981	70,835	92,269	211,085	268,548
Management fees	881,235	74,351	452,167	1,407,753	1,191,117
Printing	10,976	14,084	67,528	92,588	98,686
Travel	190,529	65,198	100,043	355,770	282,638
Meetings/conferences	52,760	33,425	106,999	193,184	178,793
Postage	6,373	4,845	14,232	25,450	18,940
Supplies	10,459	4,395	5,502	20,356	20,976
Depreciation expense	5,513	1,838	1,838	9,189	9,428
Staff education	-	8,566	21,326	29,892	28,403
Equipment rental	15,743	-	22,932	38,675	18,525
Telephone	612	656	178	1,446	907
Miscellaneous expenses	-	14,935	439	15,374	15,887
	$ 8,031,395	$ 293,128	$ 885,453	$ 9,209,976	$ 11,691,343

See accompanying notes to financial statements.

RHEUMATOLOGY RESEARCH FOUNDATION

Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012

		2013		2012
Cash flows from operating activities:				
Change in net assets	$	2,731,946	$	8,807,185
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		17,374		9,189
Net realized and unrealized (gains) losses on investments		(2,761,908)		1,104,079
Change in assets and liabilities:				
Contributions and grants receivable, net		250,766		(5,861,790)
Prepaid expenses		8,042		206,284
Accounts payable		62,255		225,898
Net cash provided by operating activities		308,475		4,490,845
Cash flows from investing activities:				
Purchase of property and equipment		(163,582)		(63)
Purchases of investments		(58,072,771)		(43,254,467)
Proceeds from sale of investments		58,070,916		43,547,441
Net cash (used in) provided by investing activities		(165,437)		292,911
Net increase in cash and cash equivalents		143,038		4,783,756
Cash and cash equivalents at beginning of year		14,136,005		9,352,249
Cash and cash equivalents at end of year	$	14,279,043	$	14,136,005

See accompanying notes to financial statements.

RHEUMATOLOGY RESEARCH FOUNDATION

Notes to Financial Statements

For the Years Ended June 30, 2013 and 2012

(1) Description of Organization

The Rheumatology Research Foundation (the "Foundation") is an organization to improve patients' lives through support of research and training that advances the prevention, treatment and cure of rheumatic diseases.

(2) Summary of Significant Accounting Policies

<u>Basis of Accounting</u> - The accompanying financial statements have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

<u>Basis of Presentation</u> - Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

> Unrestricted net assets – Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. The Foundation's Board has designated a portion of unrestricted net assets to function as an endowment to demonstrate its commitment to funding research and education awards. It is intended that the Board designated endowment funds will be maintained in perpetuity with the income being expendable for the support of research and education awards.
>
> Temporarily restricted net assets – Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. When a donor-imposed or time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
>
> Permanently restricted net assets – Permanently restricted net assets are net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions for which restrictions are met in the same reporting period are reported as unrestricted.

<u>Cash and Cash Equivalents</u> - Cash equivalents include money market funds and other highly liquid investments with original maturities of three months or less. The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced losses in such amounts.

<u>Investments</u> – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. These securities consist primarily of investments in United States government securities, corporate bonds, mortgage-backed securities, and equity securities. Investment income is recognized as earned.

(2) Summary of Significant Accounting Policies, continued

Property and equipment – Property and equipment are carried at cost. Depreciation is computed using the straight-line method over estimated useful lives of three to ten years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals and betterments.

Contributions - Contributions are recorded as unrestricted revenue when received unless specified by the donor for use in future periods or for a particular purpose. All contributions are available for unrestricted use unless specifically restricted by the donor.

Functional Expenses - Expenses which relate to more than one functional purpose are allocated among functions based on procedures that determine the portion of the cost related to each function.

Research Grants - Research grants are recorded as expense in the year for which the grants are designated and expended. The terms of research grants are from one to five years with continuation of grants subject to certain performance requirements.

Use of Estimates - Management has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Fair Value Measurements – Fair value is an exit price, representing 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 Foundation utilizes market data or assumptions that market participants would use in pricing the asset or liability. Accounting literature establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1, defined as observable inputs such as quoted prices in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Subsequent Events – The Foundation evaluated the effect subsequent events would have on the financial statements from July 1, 2013 through October 9, 2013, which is the date the financial statements were available to be issued. During that period, the Foundation did not have any material recognizable subsequent events.

(3) Investments

The cost and fair value of investments at June 30 are as follows:

	2013		2012	
	Cost	**Fair value**	**Cost**	**Fair value**
Cash and equivalents	$ 636,927	$ 636,927	$ 19,815,422	$ 19,815,422
Equity securities	10,993,209	12,297,310	4,822,908	6,208,845
Equity mutual funds	11,228,766	13,131,918	7,201,109	8,100,456
Mortgage-backed securities	5,122,183	5,062,878	773,886	795,168
Corporate bonds	3,916,725	3,832,816	564,921	597,716
U.S. treasury notes	3,842,108	3,747,460	405,569	427,939
Total	$ 35,739,918	$ 38,709,309	$ 33,583,815	$ 35,945,546

Prices for certain investment securities are readily available in the active markets in which those securities are traded, and the resulting fair values are categorized as Level 1. These include cash equivalents, mutual funds, equity securities, U.S. treasury notes, and corporate bonds.

The Level 2 investment securities include asset-backed securities for which quoted prices are not available in active markets for identical instruments. The Foundation utilizes a third party pricing service to determine the fair value of each of these investment securities. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.

The Level 3 investment consists of the Foundation’s investment in a limited partnership that is a fund of funds. The recorded market price for the fund of funds investment is based on the net asset value of the Foundation’s investment in the limited partnership. The limited partnership’s Level 3 investments include venture capital, international and domestic private equity investments, absolute return (hedge) funds, and real estate. The fair value of funds held by the limited partnership is estimated by the individual investment manager taking into account such factors as the financial condition of each investee, economic and market conditions affecting their operations, any changes in management, the length of time since the initial investment, recent transactions involving the securities of the investee, the value of similar securities issued by companies in the same or similar businesses, and limited marketability of the portfolio. Valuations provided by the general partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions.

The rollforward of Level 3 investments during 2013 is as follows:

	2013	**2012**
Beginning balance	$ 3,744,785	$ 3,834,022
Increase (decrease) in market value	455,032	(89,237)
Ending Balance	$ 4,199,817	$ 3,744,785

There were no amounts transferred into or out of Level 3 during the years ended June 30, 2013 and 2012 respectively. Changes in Level 3 investment value during 2013 and 2012 were due to changes in market value. There were no changes during the year ended June 30, 2013 and 2012 to the Foundation’s valuation techniques used to measure asset and liability fair values on a recurring basis.

(3) Investments, continued

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the fair value of the assets and their placement within the fair value hierarchy levels.

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial assets accounted for at fair value on a recurring basis as of June 30, 2013 and 2012.

	Assets at Fair Value as of June 30, 2013		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and equivalents in money market accounts	$ 636,928	$ -	$ -
Equity securities:			
Domestic common stock	7,133,854	-	-
Foreign common stock	5,163,456	-	-
Equity mutual funds:			
Real estate equity fund	1,798,121	-	-
Large cap equity fund	5,033,544	-	-
International equity fund	-	-	-
Domestic equity index fund	2,100,436	-	-
Fund of funds	-	-	4,199,817
Mortgage-backed securities	-	5,062,878	-
Corporate bonds	3,832,816	-	-
US Treasury notes	3,747,460	-	-

	Assets at Fair Value as of June 30, 2012		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and equivalents in money market accounts	$ 19,815,422	$ -	$ -
Equity securities:			
Domestic common stock	3,653,354	-	-
Foreign common stock	2,555,491	-	-
Equity mutual funds:			
Real estate equity fund	1,663,422	-	-
Large cap equity fund	717,625	-	-
International equity fund	355,128	-	-
Domestic equity index fund	1,619,496	-	-
Fund of funds	-	-	3,744,785
Mortgage-backed securities	-	795,168	-
Corporate bonds	597,716	-	-
US Treasury notes	427,939	-	-

(4) Contributions and Grants Receivable

Contributions and grants receivable include both grants and unconditional promises to give that are due to the Foundation. Contributions and grants receivable are summarized as follows at June 30, 2013 and 2012:

	2013	2012
Contributions and grants receivable, gross	$ 17,842,774	$ 18,100,162
Less unamortized discount	(147,377)	(153,999)
Contributions and grants receivable, net	$ 17,695,397	$ 17,946,163
Contributions and grants receivable expected to be collected in:		
Less than one year	$ 6,118,262	$ 9,001,842
One to five years	11,577,135	8,944,321
	$ 17,695,397	$ 17,946,163

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions. Estimated future cash flows to be received after one year but before four years were discounted at June 30, 2013 and 2012 using a discount rate of 0.38% and 0.75%, respectively. Estimated future cash flows to be received after three years were discounted at June 30, 2013 and 2012 using a discount rate of .76% and .75%, respectively.

(5) Income Taxes

The Foundation is recognized as an organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code (the "Code") as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a) of the Code, is subject to Federal income tax. Accordingly, no provision for income taxes has been recorded.

The Foundation has evaluated its tax positions and determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2013. Fiscal years ending on and after June 30, 2011 remain subject to examination by federal and state tax authorities.

(6) Commitments

The Foundation has commitments for research and education grants for future years. The terms of research and education grants are conditional subject to certain performance requirements; therefore, research and education grants are not recorded until the year the grants are expended.

	2014	2015	2016	Total
Clinical Scholar Educator Award	$ 480,000	$ 240,000	$ 120,000	$ 840,000
Rheumatology Investigator Award	1,375,000	1,000,000	250,000	2,625,000
Rheumatology Scientist Development Award	1,600,000	1,350,000	-	2,950,000
Geriatric Career Development Award	25,000	12,500	-	37,500
Within Our Reach - Disease Targeted Research	2,000,000	2,000,000	-	4,000,000
Journey to Cure - Disease Targeted Research	5,925,000	2,600,000	-	8,525,000
	$ 11,405,000	$ 7,202,500	$ 370,000	$ 18,977,500

(7) Related Party Transactions

The American College of Rheumatology, Inc. (the "College") provides management and administrative services for the Foundation. Management fees charged to the Foundation by the College amounted to $1,741,476 and $1,407,753 in 2013 and 2012, respectively, and are included in management fees in the accompanying statements of functional expenses.

Included in net accounts payable at June 30, 2013 and 2012 is $251,718 and $25,320 due to the College, respectively.

(8) Major Contributors and Campaign Fund Raising

Foundation contributions from the top five donors amounted to approximately 96% and 97% of contributions for fiscal 2013 and 2012, respectively. The related gross contributions receivable from these donors at June 30, 2013 and 2012 were approximately $14,160,000 and $12,255,000, respectively.

In July 2011, the Foundation began active fundraising for a new multi-year campaign to raise $60 million to directly invest in an extensive peer-reviewed grants program focused on rheumatology training and research. Through this campaign, the Foundation plans to support programs to attract and train the next generation of rheumatologists, and expand programs to foster and support novel hypothesis research in a variety of inflammatory rheumatic diseases. The Foundation raised $12,756,000 and $18,190,252 in contributions and commitments for the "Journey to Cure" campaign during 2013 and 2012, respectively, recorded within gifts and grants. Total gross contribution receivables related to this campaign were $15,931,375 and $12,438,320 as of June 30, 2013 and 2012, respectively.

(9) Net Assets Released from Restriction

Net assets were released from donor imposed temporary restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	2013	2012
Time restrictions	$ 3,859,327	$ 3,231,099
Disease Targeted Research Initiative	2,684,432	2,427,810
Rheumatology Fellowship Training Program	750,000	825,000
Fellows Fund	251,758	-
Physician Scientist Development Award	75,000	50,000
Rheumatology Scientist Development Award	100,000	75,000
Pediatric Visiting Professor Program	38,817	32,774
Paula Demerieux Award	15,524	16,638
Lawren H Daltroy Fellowship Fund	7,076	-
Rheumatology Development Fund	173,418	153,750
Geriatric Career Development Award	12,500	37,500
Engleman Resident Research Preceptorship	15,628	20,841
Lectureships	11,459	8,595
Clinician Scholar Educator Award	60,000	-
Journey to Cure Campaign	2,205,000	5,000
Other educational and research programs	5,000	5,000
	$ 10,264,939	$ 6,889,007

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are restricted for the following purposes:

	2013	2012
Journey to Cure Campaign	$ 8,792,662	$ 11,072,002
Time restrictions	12,273,222	6,894,511
Disease Targeted Research Initiative	5,983,623	8,661,252
Rheumatology Development Fund	4,673,571	4,391,105
Rheumatology Fellowship Training Program	2,495,625	1,828,125
Physician Scientist Development Award	100,000	174,164
Rheumatology Scientist Development Award	-	100,000
Pediatric Visiting Professor Program	700,648	570,553
Paula Demerieux Award	69,461	46,786
Lawren H Daltroy Fellowship Fund	97,088	78,069
Presidential Gold Medal Award	12,880	9,533
Engleman Resident Research Preceptorship	118,060	92,995
Lectureships	176,556	139,488
Clinician Scholar Educator Award	95,250	87,750
Fellows Fund	1,253,867	853,125
	$ 36,842,513	$ 34,999,458

(11) Permanently Restricted Net Assets

Permanently restricted net assets consist of funds subject to the donor restriction of a gift instrument requiring that the principal be invested in perpetuity with only the income available for program services.

	2013	2012
Permanently restricted net assets are restricted to:		
Investment in perpetuity, the income from which is expendable to support:		
Pediatric Visiting Professor Program	$ 1,107,000	$ 1,107,000
Paula Demerieux Award	320,520	320,520
Lawren H. Daltroy Fellowship Fund	169,260	169,260
Presidential Gold Medal Award	74,503	74,503
Engleman Resident Research Preceptorship	300,000	300,000
Lectureships	334,512	334,512
	$ 2,305,795	$ 2,305,795

(12) Endowment

The Foundation's endowment consists of approximately twelve (12) individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds, a term endowment fund designated by the Board of Directors to function as a general endowment. As required by GAAP, net assets associated with endowment funds, including funds designed by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") 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 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 organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the Foundation and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the organization
7) The investment policies of the organization

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
Donor restricted endowment funds	$ (50,317)	$ 1,174,694	$ 2,305,795	$ 3,430,172
Term endowment funds	-	4,669,572	-	4,669,572
Board designated funds – General Endowment	24,412,241	-	-	24,412,241
Total Funds	$ 24,361,924	$ 5,844,266	$ 2,305,795	$ 32,511,985

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
Donor restricted endowment funds	$ (28,045)	$ 937,425	$ 2,305,795	$ 3,215,175
Term endowment funds	-	4,391,106	-	4,391,106
Board designated funds – General Endowment	22,831,651	-	-	22,831,651
Total Funds	$ 22,803,606	$ 5,328,531	$ 2,305,795	$ 30,437,932

(12) Endowment, continued

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Funds
Endowment net assets, June 30, 2011	$ 19,951,012	$ 5,649,387	$ 2,305,795	$ 27,906,194
Investment return:				
Investment income	509,939	180,114	-	690,053
Net appreciation (realized and unrealized)	(491,166)	(263,872)	-	(755,038)
Total investment return	18,773	(83,758)	-	(64,985)
Appropriation of endowment assets for expenditure	(766,179)	(237,098)	-	(1,003,277)
Other charges:				
Transfers to create board designated funds	3,600,000	-	-	3,600,000
Total other charges	3,600,000	-	-	3,600,000
Endowment net assets, June 30, 2012	$ 22,803,606	$ 5,328,531	$ 2,305,795	$ 30,437,932
Investment return:				
Investment income	613,771	200,806	-	814,577
Net appreciation (realized and unrealized)	1,744,562	567,635	-	2,312,197
Total investment return	2,358,333	768,441	-	3,126,774
Appropriation of endowment assets for expenditure	(843,272)	(266,922)	-	(1,110,194)
Other charges:				
Other additions	43,257	14,216	-	57,473
Total other charges	43,257	14,216	-	57,473
Endowment net assets, June 30, 2013	$ 24,361,924	$ 5,844,266	$ 2,305,795	$ 32,511,985

(12) Endowment, continued

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2013 or 2012.

Return Objectives and Risk Parameters – 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. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately seven percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Foundation has a policy of appropriating for distribution each year five percent of the endowment fund’s three year moving average as of September 30 preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of two percent annually. This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(13) Line of Credit

The Foundation has a revolving line of credit with a maximum loan amount of $1,000,000 plus interest at the 30 day LIBOR rate (0.19% at June 30, 2013) plus 2.0%. The line of credit expires on December 31, 2013. No amounts were drawn on the line in 2013 or 2012.