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# **Rheumatology Research Foundation**

## **Independent Auditor's Report, and Financial Statements**

June 30, 2023 and 2022

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## Independent Auditor's Report

Board of Directors  
Rheumatology Research Foundation  
Atlanta, Georgia

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the financial statements of the Rheumatology Research Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year from the date of this report.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

**FORVIS, LLP**

**Atlanta, Georgia  
October 28, 2023**

**Rheumatology Research Foundation**  
**Statements of Financial Position**  
**June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Assets:		
Cash and cash equivalents	\$ 8,600,923	\$ 9,331,043
Investments	50,295,515	46,430,884
Contributions and grants receivable, net	11,513,000	14,855,545
Prepaid expenses and other assets	87,105	14,880
Property and equipment, less accumulated depreciation of \$210,331 and \$195,286 in 2023 and 2022, respectively	-	15,046
Total assets	<u>\$ 70,496,543</u>	<u>\$ 70,647,398</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 501,818	\$ 1,870,671
Total liabilities	501,818	1,870,671
Net assets:		
With donor restrictions	30,273,324	27,222,510
Without donor restrictions:		
Designated by board for education and research awards	33,426,213	31,662,574
Other	6,295,188	9,891,643
Total net assets	<u>69,994,725</u>	<u>68,776,727</u>
Total liabilities and net assets	<u>\$ 70,496,543</u>	<u>\$ 70,647,398</u>

**Rheumatology Research Foundation**  
**Statements of Activities**  
**Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Changes in net assets without donor restrictions:		
Revenue:		
Gifts and grants	\$ 2,588,904	\$ 2,193,741
Investment and interest income	694,326	680,388
Net realized and unrealized gain (loss) on investments	3,667,351	(6,858,637)
Miscellaneous income	66	64
Net assets released from restriction	<u>7,927,290</u>	<u>7,683,334</u>
Total unrestricted revenues	<u>14,877,937</u>	<u>3,698,890</u>
Expenses:		
Program services:		
Research	9,994,318	9,458,334
Education	3,276,205	3,275,766
Lectureships	110,536	106,256
Impact	<u>1,035,210</u>	<u>931,711</u>
Total program services	<u>14,416,269</u>	<u>13,772,067</u>
Support services:		
Administrative	514,351	506,703
Fundraising	<u>1,780,133</u>	<u>1,819,135</u>
Total support services	<u>2,294,484</u>	<u>2,325,838</u>
Total expenses	<u>16,710,753</u>	<u>16,097,905</u>
Change in net assets without donor restrictions	<u>(1,832,816)</u>	<u>(12,399,015)</u>
Changes in net assets with donor restrictions:		
Gifts and grants	10,003,813	3,909,794
Investment and interest income	159,356	136,293
Net realized and unrealized gain (loss) on investments	814,935	(1,366,083)
Net assets released from restriction	<u>(7,927,290)</u>	<u>(7,683,334)</u>
Change in net assets with donor restrictions	<u>3,050,814</u>	<u>(5,003,330)</u>
Change in net assets	1,217,998	(17,402,345)
Net assets at beginning of year	<u>68,776,727</u>	<u>86,179,072</u>
Net assets at end of year	<u>\$ 69,994,725</u>	<u>\$ 68,776,727</u>

See accompanying notes.

Rheumatology Research Foundation  
Statement of Functional Expenses  
Year Ended June 30, 2023

	Program Services				Support Services		Total	
	Research	Education	Lectureships	Impact	Administrative	Fundraising	2023	2022 (Memo only)
Awards and grants	\$ 9,100,741	\$ 2,745,295	\$ 12,750	\$ -	\$ -	\$ -	\$ 11,858,786	\$ 11,504,247
Professional fees	79,032	36,900	2,087	497,275	101,590	100,604	817,488	1,131,617
Management fees	560,563	402,430	95,040	481,061	254,985	1,374,156	3,168,235	2,955,230
Printing	1	1	-	4,323	501	10,013	14,839	17,841
Travel	100,200	83,746	-	40,519	45,322	62,975	332,762	176,290
Meetings/conferences	128,693	1,614	-	1,856	68,698	200,113	400,974	151,104
Postage	1,591	802	235	2,501	194	1,796	7,119	16,053
Supplies	2,803	1,546	424	1,529	1,567	194	8,063	21,969
Depreciation expense	3,009	3,009	-	3,009	3,009	3,010	15,046	15,045
Staff education	9,470	653	-	1,624	870	3,248	15,865	30,512
Telephone	4,909	209	-	1,392	2,867	23,398	32,775	29,243
Contribution write-off	-	-	-	-	-	-	-	4,716
Miscellaneous expense	3,306	-	-	121	34,748	626	38,801	44,038
	<u>\$ 9,994,318</u>	<u>\$ 3,276,205</u>	<u>\$ 110,536</u>	<u>\$ 1,035,210</u>	<u>\$ 514,351</u>	<u>\$ 1,780,133</u>	<u>\$ 16,710,753</u>	<u>\$ 16,097,905</u>

See accompanying notes.

**Rheumatology Research Foundation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2022**

	<b>Program Services</b>				<b>Support Services</b>		<b>Total</b>	
	<b>Research</b>	<b>Education</b>	<b>Lectureships</b>	<b>Impact</b>	<b>Administrative</b>	<b>Fundraising</b>	<b>2022</b>	<b>2021 (Memo only)</b>
Awards and grants	\$ 8,675,147	\$ 2,819,600	\$ 9,500	\$ -	\$ -	\$ -	\$ 11,504,247	\$ 10,597,126
Professional fees	122,737	49,343	2,724	432,363	168,636	355,814	1,131,617	1,017,122
Management fees	522,574	377,547	93,729	418,526	228,562	1,314,292	2,955,230	2,872,398
Printing	-	-	-	8,498	215	9,128	17,841	28,116
Travel	49,402	17,271	-	34,163	32,993	42,461	176,290	(6,704)
Meetings/conferences	67,629	4,563	-	6,131	19,203	53,578	151,104	90,252
Postage	1,331	182	-	4,287	2,160	8,093	16,053	21,886
Supplies	10,397	2,965	303	1,254	5,376	1,674	21,969	16,525
Depreciation expense	3,009	3,009	-	3,009	3,009	3,009	15,045	21,034
Staff education	1,475	845	-	21,255	2,740	4,197	30,512	40,911
Telephone	3,341	441	-	2,141	3,571	19,749	29,243	23,720
Contribution write-off	-	-	-	-	-	4,716	4,716	1,000,000
Miscellaneous expenses	1,292	-	-	84	40,238	2,424	44,038	17,363
	<u>\$ 9,458,334</u>	<u>\$ 3,275,766</u>	<u>\$ 106,256</u>	<u>\$ 931,711</u>	<u>\$ 506,703</u>	<u>\$ 1,819,135</u>	<u>\$ 16,097,905</u>	<u>\$ 15,739,749</u>

See accompanying notes.



**Rheumatology Research Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,217,998	\$ (17,402,345)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	15,046	15,045
Net realized and unrealized (gains) losses on investments	(4,482,286)	8,224,720
Change in assets and liabilities:		
Contributions and grants receivable, net	3,342,545	5,717,661
Prepaid expenses	(72,225)	157,697
Accounts payable	(1,368,853)	1,195,324
Net cash used in operating activities	<u>(1,347,775)</u>	<u>(2,091,898)</u>
Cash flows from investing activities:		
Purchases of investments	(23,241,129)	(33,679,946)
Proceeds from sale of investments	23,858,784	34,854,787
Net cash provided by investing activities	<u>617,655</u>	<u>1,174,841</u>
Net decrease in cash and cash equivalents	(730,120)	(917,057)
Cash and cash equivalents at beginning of year	<u>9,331,043</u>	<u>10,248,100</u>
Cash and cash equivalents at end of year	<u>\$ 8,600,923</u>	<u>\$ 9,331,043</u>

## Notes to Financial Statements

### 1. Description of Organization

The Rheumatology Research Foundation (the “Foundation”) is an organization created to improve the health of people with rheumatic diseases through support of research and training that advances the prevention, treatment and cure of rheumatic diseases.

### 2. Summary of Significant Accounting Policies

#### ***Basis of accounting***

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”).

#### ***Basis of presentation***

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:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. The Foundation’s Board has designated, from net assets without donor restrictions, net assets for a board-designated 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, but the Board can change the designation at their discretion.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction.

### ***Revenue Recognition***

Revenues from nonexchange contracts with resource providers are accounted for in accordance with the guidance for contributions and promises to give under Accounting Standards Codification (“ASC”) Topic 958, while revenues from exchange contracts with customers are accounted for in accordance with ASC Topic 606. The determination of whether a contract is exchange or nonexchange requires management to exercise judgment and evaluate subjective criteria about whether there is a reciprocal exchange of commensurate value that flows to the direct benefit of the parties to the contract. Although the accounting guidance differs for exchange and nonexchange contracts, in practice, the timing and amount of revenue recognition for the Foundation’s contracts generally would not differ significantly under either Topic.

Under Topic 958, nonexchange transactions may be conditional or unconditional. If there is both 1) a barrier and 2) a right of return or release of the resource provider’s obligation to transfer assets, then the contribution is conditional. If both criteria are not present, then the contribution is unconditional and is recognized upon satisfaction of any conditions. A contribution also may include a purpose or use restriction on the funding or may be intended for use in a future year and thus have an explicit or implicit time restriction. Once a contribution becomes unconditional, an entity shall consider whether there is a purpose or time restriction prior to recognizing the funds as unrestricted revenue.

### ***Cash and cash equivalents***

Cash equivalents include money market funds and other highly liquid investments with original maturities of three months or less when purchased. 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.

### ***Investments***

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. These securities consist primarily of investments in equity securities, equity funds, bond mutual funds, mortgage-backed securities, corporate bonds, foreign government bonds, and U.S. treasury notes. Investment income is recognized as earned.

### ***Property and equipment***

Property and equipment are carried at cost, less accumulated depreciation. 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.

***Awards and grants***

Awards and 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 three 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.

***Reclassifications***

Certain reclassifications have been made to the fiscal year 2022 financial statements and note disclosures to conform to the 2023 presentation. These reclassifications had no impact on the total net assets or total changes in net assets in the accompanying financial statements.

***Subsequent events***

The Foundation evaluated the effect subsequent events would have on the financial statements from July 1, 2023 through October 28, 2023, which is the date the financial statements were available to be issued.

**Rheumatology Research Foundation  
Notes to Financial Statements**

**3. Investments**

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

	2023		2022	
	Cost	Fair value	Cost	Fair value
Cash and equivalents	\$ 1,408,120	\$ 1,408,120	\$ 2,695,247	\$ 2,695,247
Equity securities	10,846,871	16,546,616	10,131,884	12,593,052
Equity funds	16,574,649	20,392,743	15,517,745	18,132,678
Bond mutual funds	4,846,264	4,853,370	7,053,925	6,502,725
Mortgage-backed securities	3,371,121	2,874,037	3,181,956	3,243,580
Corporate bonds	3,564,594	3,218,279	3,514,841	2,681,683
U.S. Treasury notes	1,148,689	1,002,350	689,365	581,919
Total	<u>\$ 41,760,308</u>	<u>\$ 50,295,515</u>	<u>\$ 42,784,963</u>	<u>\$ 46,430,884</u>

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 Foundation did not hold any Level 3 securities as of June 30, 2023 and 2022.

The Foundation's alternative investment funds are included in the equity funds line in table above and are measured at net asset value as a practical expedient for fair value and are accordingly excluded from the fair value hierarchy. These funds include ownership interests 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. Underlying assets of these investment funds 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.

**Rheumatology Research Foundation**  
**Notes to Financial Statements**

	<u>Fair Value at 6/30/2023</u>	<u>Fair Value at 6/30/2022</u>	<u>Unfunded Commitments</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period (iii)</u>
Mill Creek International Absolute Return Fund (i)	\$ 2,332,323	\$ 2,421,690	None	Initial 2 year lock-up period; period has lapsed	90 days' notice prior to last day of each 4 quarter period
Mill Creek Private Equity Fund IV (ii)	\$ 978,348	\$ 1,092,341	\$ 188,410	(iii)	(iii)
Mill Creek Private Equity Fund V (ii)	\$ 851,079	\$ 729,791	\$ 333,299	(iii)	(iii)
Mill Creek Enhanced Income Fund, L.P. (iv)	\$ 2,847,994	\$ 2,987,843	None	Initial 2 year lock-up period; period has lapsed	90 days' notice prior to the end of March and September
Mill Creek Wilshire Private Equity 2022, L.P. (v)	\$ 311,133	\$ -	None	Permitted with General Partner consent	Permitted with General Partner consent

- (i) The Mill Creek International Absolute Return Fund is a segregated portfolio of Mill Creek Strategic Return International, Ltd (the "Company"). The Company's principal investment objective is to generate attractive risk-adjusted returns through its investment in the Absolute Return Series of MCSR Master Fund, L.P. (the "Master Fund"). The Company invests substantially all of its assets in the Master Fund. The Master Fund predominantly invests in third-party investment companies. The fund's investment objective is to generate returns through investments in hedge funds as well as mutual funds.
- (ii) The Mill Creek Capital Advisors' Private Equity Fund is designed to provide a diversified portfolio for investing in venture capital, buyouts, real estate, and other non-publicly traded equity and debt securities and strategies. The Fund was formed for the purpose of investing, holding, selling, and otherwise dealing in investment securities and other assets. The Fund's investment objective is to generate returns through investments in underlying funds.
- (iii) If the aggregate amount requested by investors to be redeemed on any redemption date is greater than 50% of the net asset value of the total fund, the Fund Board may reduce the amount of shares to be redeemed pro rata among investors so that the aggregate amount to be withdrawn equals 50% of the net asset value of the fund.
- (iv) The Mill Creek Capital Advisors' Enhanced Income Fund, L.P. is a "fund of funds" designed to provide a diversified portfolio of private investment funds with credit focused investment strategies. The Fund seeks to generate positive total returns and distribute income periodically while assuming the risks of alternative investments in fixed income like assets.
- (v) The Mill Creek Wilshire Private Equity 2022, L.P. is designed to allow qualified investors to pool their assets to invest in a diversified private markets portfolio which may include investments in any of the following categories: co-investments, buyouts and venture capital funds.

**Rheumatology Research Foundation**  
**Notes to Financial Statements**

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, 2023 and 2022.

	Fair Value at June 30, 2023	Fair value measurements as of June 30, 2023		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents in money market accounts	\$ 1,408,120	\$ 1,408,120	\$ -	\$ -
Equity securities:				
Domestic common stock	13,500,594	13,500,594	-	-
Foreign common stock	3,046,022	3,046,022	-	-
Equity and bond mutual funds:				
Large-cap equity funds	462,745	462,745	-	-
International equity fund	5,977,400	5,977,400	-	-
Domestic equity index fund	6,631,721	6,631,721	-	-
Fixed income fund	4,853,370	4,853,370	-	-
Mortgage-backed securities	2,874,037	-	2,874,037	-
Corporate bonds	3,218,279	3,218,279	-	-
U.S Treasury notes	1,002,350	1,002,350	-	-
Total assets in the fair value hierarchy	42,974,638	\$ 40,100,601	\$ 2,874,037	\$ -
Investments at NAV (a)	7,320,877			
Total investments at fair value	\$ 50,295,515			

- (a) Certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

Rheumatology Research Foundation  
Notes to Financial Statements

	Fair Value at June 30, 2022	Fair Value Measurements as of June 30, 2022		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents in money market accounts	\$ 2,695,247	\$ 2,695,247	\$ -	\$ -
Equity securities:				
Domestic common stock	10,358,387	10,358,387	-	-
Foreign common stock	2,234,665	2,234,665	-	-
Equity and bond mutual funds:				
Large-cap equity funds	443,109	443,109	-	-
International equity fund	5,328,151	5,328,151	-	-
Domestic equity index fund	5,129,753	5,129,753	-	-
Fixed income fund	6,502,725	6,502,725	-	-
Mortgage-backed securities	3,243,580	-	3,243,580	-
Corporate bonds	2,681,683	2,681,683	-	-
U.S Treasury notes	581,919	581,919	-	-
Total assets in the fair value hierarchy	39,199,219	\$ 35,955,639	\$ 3,243,580	\$ -
Investments at NAV (a)	7,231,665			
Total investments at fair value	\$ 46,430,884			

(a) Certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.



#### **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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Contributions and grants receivable, gross	\$ 11,737,568	\$ 14,940,686
Less unamortized discount	<u>(224,568)</u>	<u>(85,141)</u>
Contributions and grants receivable, net	<u>\$ 11,513,000</u>	<u>\$ 14,855,545</u>
Contributions and grants receivable expected to be collected in:		
Less than one year	\$ 5,726,816	\$ 6,769,862
One to five years	5,622,284	7,913,033
Greater than five years	<u>163,900</u>	<u>172,650</u>
	<u>\$ 11,513,000</u>	<u>\$ 14,855,545</u>

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. The discount rate ranges from 0.29% to 4.13% for pledges made from 2015 through 2023.

#### **5. Line of Credit**

The Foundation has an open-end revolving line of credit with a maximum loan amount of \$5,000,000 plus interest at the greater of the 30-day LIBOR rate or the Index Floor plus 1.5%. No amounts were drawn on the line in 2023 or 2022.

#### **6. 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, 2023.

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**7. Commitments**

The Foundation has commitments to fund research and education grants in 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.

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Total</u>
Clinician Scholar Educator Award	\$ 240,000	\$ 120,000	\$ 120,000	\$ 480,000
Investigator Award	1,436,326	1,175,000	625,000	3,236,326
Future Physician Scientist Award	90,000	30,000	-	120,000
Scientist Development Award	1,700,000	1,675,000	1,000,000	4,375,000
Bridge Funding Award	1,150,000	-	-	1,150,000
Fellowship Training Award for Workforce Expansion	550,000	450,000	300,000	1,300,000
Innovative Research Award	5,395,750	2,715,750	15,750	8,127,250
Miscellaneous Program Awards	894,000	-	-	894,000
	<u>\$ 11,456,076</u>	<u>\$ 6,165,750</u>	<u>\$ 2,060,750</u>	<u>\$19,682,576</u>

**8. 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 \$3,168,236 and \$2,955,230 in 2023 and 2022, respectively, and are included in management fees in the accompanying statements of functional expenses. Included in net accounts payable at June 30, 2023 and 2022 is \$342,867 and \$1,519,360 due to the College for management fees, respectively.

Included in contributions and grants receivable, net at June 30, 2023 and 2022 is \$6,000,000 and \$7,500,000, respectively, due from the College related to the Foundation’s campaign, *Leading Boldly: Transforming Rheumatology*.

**9. Major Contributors and Campaign Fund Raising**

Foundation contributions from the top five donors amounted to approximately 66% and 54% of total contributions for fiscal years 2023 and 2022, respectively. The related gross contributions receivable from these donors at June 30, 2023 and 2022 were approximately \$2,400,000 and \$1,190,000, respectively.

The Foundation fundraises for activities to support its mission to advance research and training to improve the health of patients living with rheumatic disease. In January 2017, the Foundation began fundraising for *Leading Boldly: Transforming Rheumatology*, a multi-year campaign with a goal to raise \$75 Million. Total gross contribution receivables related to the *Leading Boldly* campaign were \$1,395,810 and \$4,713,778 as of June 30, 2023 and 2022, respectively. In January 2022, to align with the changing fundraising landscape more closely, the Foundation changed from a multi-year campaign fundraising structure to an annual structure. Total gross contribution receivables from annual fundraising were \$4,589,161 and \$47,926 as of June 30, 2023 and 2022, respectively. For both the funds raised within the *Leading Boldly* campaign and the annual fundraising structure, it is estimated that 25% will be allocated to support increased patient access to care by recruiting and training rheumatology providers, and an estimated 75% will be allocated to support accelerating discoveries by investing in high-risk, high-reward innovative research.

**Rheumatology Research Foundation  
Notes to Financial Statements**

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**10. Net Assets Released from Restriction**

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

	<u>2023</u>	<u>2022</u>
Time Restrictions	\$ 6,243,567	\$ 3,628,219
Fellowship Training Awards	325,884	250,000
Fellows Education Fund	232,474	350,000
Pediatric Visiting Professor Program	30,387	-
Paula DeMerieux Fellowship Training Award	24,233	21,263
Lawren H Daltroy Fellowship	15,000	30,000
Memorial Lectureships	32,803	19,252
Clinician Scholar Educator Award	2,500	2,500
Marshall Schiff Memorial Research Award	11,191	4,500
Malawista Endowment in Academic Rheumatology	50,000	-
Donor Direct – Telehealth App	200,000	100,000
Donor Direct- Telehealth CSE Award	120,000	120,000
Andrejeski Fund	50,000	25,000
Research Funds	574,251	2,806,257
Englemen Endowment Fund	15,000	15,000
Christian Fund	-	208,687
Woodworth Recruiting	-	42,656
Rheumatology Fellowship Training Award	-	10,000
Nurse Practitioner/Patient Assistance Fund	-	50,000
	<u>\$ 7,927,290</u>	<u>\$ 7,683,334</u>

**Rheumatology Research Foundation  
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**11. Net Assets with Donor Restrictions**

Net assets with donor restrictions at June 30, 2023 and 2022 are restricted for the following purposes:

	<u>2023</u>	<u>2022</u>
<i>Subject to the passage of time:</i>		
Time Restrictions	\$ 15,168,824	\$ 14,529,838
<i>Subject to expenditure for specified purpose:</i>		
Fellowship Training Awards	24,941	250,749
Gaylis Award	351,287	475,549
Pediatric Visiting Professor Program	1,941,043	1,638,547
Fellows Education Fund	267,526	500,000
Memorial Lectureships	432,089	275,822
Education Funds	393,630	554,059
Lawren H Daltroy Award	206,186	174,665
Engleman Resident Research Preceptorship	463,737	368,853
Paula DeMerieux Fellowship Training Award	96,990	68,669
Marshall Schiff Memorial Research Award	123,854	108,920
Malawista Endowment in Academic Rheumatology Research Funds	486,258 4,178,443	351,622 2,788,356
<i>Held in perpetuity:</i>		
Pediatric Visiting Professor Program	1,107,000	1,107,000
Paula DeMerieux Fellowship Training Award	320,520	320,520
Lawren H. Daltroy Award	169,260	169,260
Presidential Gold Medal Award	74,503	74,503
Engleman Resident Research Preceptorship	500,000	500,000
Malawista Endowment in Academic Rheumatology	1,024,804	1,024,804
Nelson Endowment in Pediatric Rheumatology	1,000,667	1,000,000
Marshall Schiff Memorial Research Award	102,000	101,000
Daniel J Wallace, MD Graduate Student Preceptorship Endowment	300,000	300,000
Majithia Family Endowment	300,000	300,000
STAR Fellowship Training Award	1,000,000	-
Memorial Lectureships	239,762	239,774
	<u>\$ 30,273,324</u>	<u>\$ 27,222,510</u>

**12. Endowment**

The Foundation's endowment consists of 17 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as a general endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Rheumatology Research Foundation**  
**Notes to Financial Statements**

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***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. 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, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Endowment funds	\$ 5,012,405	\$ 9,857,055	\$ 14,869,460
Board designated funds – general endowment	<u>28,097,697</u>	<u>-</u>	<u>28,097,697</u>
Total funds	<u>\$ 33,110,102</u>	<u>\$ 9,857,055</u>	<u>\$ 42,967,157</u>

Endowment net asset composition by type of fund as of June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Endowment funds	\$ 4,784,606	\$ 8,123,946	\$ 12,908,552
Board designated funds – general endowment	<u>26,613,973</u>	<u>-</u>	<u>26,613,973</u>
Total funds	<u>\$ 31,398,579</u>	<u>\$ 8,123,946</u>	<u>\$ 39,522,525</u>

**Rheumatology Research Foundation  
Notes to Financial Statements**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Endowment net assets, June 30, 2021	\$ 38,120,263	\$ 9,443,031	\$ 47,563,294
Investment return:			
Investment income	1,185,965	285,087	1,471,052
Net depreciation (realized and unrealized)	<u>(6,067,756)</u>	<u>(1,533,231)</u>	<u>(7,600,987)</u>
Total investment return	(4,881,791)	(1,248,144)	(6,129,935)
Appropriation of endowment assets for expenditure	(1,839,893)	(90,014)	(1,929,907)
Other charges:			
Discount on receivables	-	17,073	17,073
Other additions	<u>-</u>	<u>2,000</u>	<u>2,000</u>
Total other charges	<u>-</u>	<u>19,073</u>	<u>19,073</u>
<b>Endowment net assets, June 30, 2022</b>	<b>\$ 31,398,579</b>	<b>\$ 8,123,946</b>	<b>\$ 39,522,525</b>
Investment return:			
Investment income	<b>545,939</b>	<b>159,353</b>	<b>705,292</b>
Net appreciation (realized and unrealized)	<u><b>2,884,413</b></u>	<u><b>814,938</b></u>	<u><b>3,699,351</b></u>
Total investment return	<b>3,430,352</b>	<b>974,291</b>	<b>4,404,643</b>
Appropriation of endowment assets for expenditure	(1,718,829)	(211,231)	(1,930,060)
Other charges:			
Discount on receivables	-	(32,617)	(32,617)
Other additions	<u>-</u>	<u><b>1,002,666</b></u>	<u><b>1,002,666</b></u>
Total other charges	<u>-</u>	<u><b>970,049</b></u>	<u><b>970,049</b></u>
<b>Endowment net assets, June 30, 2023</b>	<b><u>\$ 33,110,102</u></b>	<b><u>\$ 9,857,055</u></b>	<b><u>\$ 42,967,157</u></b>

***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. Deficiencies of this nature that are reported in net assets with donor restrictions were \$306,519 and \$62,253 as of June 30, 2023 and 2022, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new restricted contributions.

***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 of the preceding 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. Liquidity and Availability of Resources**

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the balance sheet date are reflected in the balance sheets as assets and include the following balances at June 30:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 8,600,923	\$ 9,331,043
Contributions and grant receivables, net	<u>5,726,816</u>	<u>6,769,862</u>
Total	<u>\$ 14,327,739</u>	<u>\$ 16,100,905</u>

Although the Foundation does not intend to spend from the board-designated endowment (the portion that consists of net assets without donor restrictions) of \$33,110,102 as of June 30, 2023, these amounts could be made available if necessary. The Foundation also has no current plans to spend from the investment portfolio of \$50,295,515 as of June 30, 2023, however, approximately 85% of the portfolio is considered highly liquid, and these funds could be made available if needed.