

Rheumatology Research Foundation

Financial Statements

Years Ended June 30, 2015 and 2014

with Independent Auditors' Report

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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, 2015 and 2014 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, 2015 and 2014, and the changes in its net assets and 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 10, 2015**

Rheumatology Research Foundation
Statement of Financial Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 5,286,208	\$ 10,655,761
Investments	43,467,099	43,525,175
Contributions and grants receivable, net	14,100,455	20,062,870
Prepaid expenses and other assets	52,661	161,877
Property and equipment, less accumulated depreciation of \$105,523 and \$79,973 in 2015 and 2014, respectively	<u>227,028</u>	<u>197,686</u>
Total assets	<u>\$ 63,133,451</u>	<u>\$ 74,603,369</u>
Liabilities:		
Accounts payable	\$ 918,896	\$ 414,934
Net assets:		
Donor restricted:		
Temporarily restricted	24,521,032	35,260,813
Permanently restricted	3,300,085	3,295,141
Unrestricted:		
Designated by board for education and research awards	31,480,542	31,961,788
Other	<u>2,912,896</u>	<u>3,670,693</u>
Net decrease in cash and cash equivalents		
Total net assets	<u>62,214,555</u>	<u>74,188,435</u>
Total liabilities and net assets	<u>\$ 63,133,451</u>	<u>\$ 74,603,369</u>

Rheumatology Research Foundation
Statements of Activities
For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Changes in unrestricted net assets:		
Revenue:		
Gifts and grants	\$ 739,942	\$ 1,665,554
Investment and interest income	897,039	769,387
Net realized and unrealized gains on investments	212,061	3,650,363
Net assets transferred from temporarily restricted	-	5,115,243
Net assets released from restriction	12,823,582	7,354,982
Total unrestricted revenues	<u>14,672,624</u>	<u>18,555,529</u>
Expenses:		
Program services - research and education	13,246,173	12,374,840
Support services:		
Administrative	1,236,331	980,993
Fundraising	1,429,163	960,786
Total support services	<u>2,665,494</u>	<u>1,941,779</u>
Total expenses	<u>15,911,667</u>	<u>14,316,619</u>
Net decrease in cash and cash equivalents	<u>(1,239,043)</u>	<u>4,238,910</u>
Changes in temporarily restricted net assets:		
Gifts and grants	1,952,737	9,716,757
Investment and interest income	103,529	203,070
Net realized and unrealized gains on investments	27,535	968,698
Net assets transferred from temporarily restricted	-	(5,115,243)
Net assets released from restriction	(12,823,582)	(7,354,982)
Change in temporarily restricted net assets	<u>(10,739,781)</u>	<u>(1,581,700)</u>
Changes in permanently restricted net assets:		
Gifts and grants	4,944	989,346
Change in permanently restricted net assets	<u>4,944</u>	<u>989,346</u>
Change in net assets	(11,973,880)	3,646,556
Net assets at beginning of year	<u>74,188,435</u>	<u>70,541,879</u>
Net assets at end of year	<u>\$ 62,214,555</u>	<u>\$ 74,188,435</u>

See accompanying notes.

Rheumatology Research Foundation
Statement of Functional Expenses
For the years ended June 30, 2015 and 2014

	Program Services	Support Services		Total	
	Research and Education	Administrative	Fundraising	2015	2014
Awards	\$ 11,722,359	\$ -	\$ -	\$ 11,722,359	\$ 10,982,675
Professional fees	201,174	719,914	173,967	1,095,055	546,846
Management fees	879,178	349,085	900,126	2,128,389	1,924,616
Printing	25,314	4,287	56,180	85,781	82,006
Travel	245,140	81,374	123,183	449,697	373,605
Meetings/conferences	137,322	36,550	136,369	310,241	238,668
Postage	5,009	2,343	13,457	20,809	30,352
Supplies	7,936	3,873	6,998	18,807	13,627
Depreciation expense	15,331	5,110	5,110	25,551	17,373
Staff education	6,966	14,347	6,637	27,950	36,782
Equipment rental	-	-	-	-	47,262
Telephone	369	2,222	5,015	7,606	1,216
Miscellaneous expenses	75	17,226	2,121	19,422	21,591
	<u>\$ 13,246,173</u>	<u>\$ 1,236,331</u>	<u>\$ 1,429,163</u>	<u>\$ 15,911,667</u>	<u>\$ 14,316,619</u>

Rheumatology Research Foundation
Statement of Functional Expenses
For the years ended June 30, 2014 and 2013

	Program Services	Support Services		Total	
	Research and Education	Administrative	Fundraising	2014	2013 (Memo only)
Awards	\$ 10,982,675	\$ -	\$ -	\$ 10,982,675	\$ 11,006,968
Professional fees	25,900	417,120	103,826	546,846	357,767
Management fees	973,914	357,620	593,082	1,924,616	1,741,476
Printing	22,008	9,679	50,319	82,006	111,319
Travel	232,258	68,011	73,336	373,605	348,228
Meetings/conferences	97,821	57,301	83,546	238,668	244,726
Postage	7,135	1,783	21,434	30,352	22,331
Supplies	5,770	4,929	2,928	13,627	18,792
Depreciation expense	10,423	3,475	3,475	17,373	17,374
Staff education	12,087	14,634	10,061	36,782	24,599
Equipment rental	4,146	26,500	16,616	47,262	51,728
Telephone	-	645	571	1,216	659
Miscellaneous expenses	703	19,296	1,592	21,591	18,688
	<u>\$ 12,374,840</u>	<u>\$ 980,993</u>	<u>\$ 960,786</u>	<u>\$ 14,316,619</u>	<u>\$ 13,964,655</u>

Rheumatology Research Foundation
Statements of Cash Flows
For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (11,973,880)	\$ 3,646,556
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	25,551	17,373
Net realized and unrealized gains on investments	(239,596)	(4,619,061)
Change in assets and liabilities:		
Contributions and grants receivable, net	5,962,415	(2,374,765)
Prepaid expenses	109,216	(137,135)
Accounts payable	503,962	40,555
	<u>(5,612,332)</u>	<u>(3,426,477)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(54,893)	-
Purchases of investments	(48,113,468)	(81,874,375)
Proceeds from sale of investments	48,411,140	81,677,570
	<u>242,779</u>	<u>(196,805)</u>
Net cash provided (used) by investing activities		
Net decrease in cash and cash equivalents	(5,369,553)	(3,623,282)
Cash and cash equivalents at beginning of year	<u>10,655,761</u>	<u>14,279,043</u>
Cash and cash equivalents at end of year	<u>\$ 5,286,208</u>	<u>\$ 10,655,761</u>

1. Description of Organization

The Rheumatology Research Foundation (the "Foundation") is an organization 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:

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.

Cash and Cash Equivalents

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.

Rheumatology Research Foundation Notes to Financial Statements

Investments

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.

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.

Grants

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.

Rheumatology Research Foundation
Notes to Financial Statements

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, 2015 through October 10, 2015, 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:

	2015		2014	
	Cost	Fair value	Cost	Fair value
Cash and equivalents	\$ 2,171,458	\$ 2,171,458	\$ 548,296	\$ 548,296
Equity securities	5,540,719	6,559,807	6,090,655	6,930,513
Equity mutual funds	19,404,431	20,313,582	19,294,405	21,596,080
Bond mutual funds	3,843,138	3,738,748	2,953,429	2,973,635
Mortgage-backed securities	865,787	808,678	3,819,183	3,795,186
Corporate bonds	10,017,126	9,783,731	6,603,334	6,553,558
Foreign government bonds	91,074	91,095	91,074	91,087
U.S. treasury notes	-	-	1,027,205	1,036,820
Total	\$ 41,933,733	\$ 43,467,099	\$ 40,427,581	\$ 43,525,175

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.

Rheumatology Research Foundation
Notes to Financial Statements

The rollforward of Level 3 investments during 2015 is as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 4,652,933	\$ 4,199,817
Sales	(4,647,595)	-
Purchases	4,380,000	-
Increase in market value	<u>71,573</u>	<u>453,116</u>
Ending Balance	<u>\$ 4,456,911</u>	<u>\$ 4,652,933</u>

There were no amounts transferred into or out of Level 3 during the years ended June 30, 2015 and 2014 respectively. Changes in Level 3 investment value during 2015 and 2014 were due to changes in market value. There were no changes during the year ended June 30, 2015 and 2014 to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

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, 2015 and 2014.

	<u>Asset at Fair Value as of June 30, 2015</u>		
	<u>Quoted Prices in Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents in money market accounts	\$ 2,171,458	\$ -	\$ -
Equity securities:			
Domestic common stock	4,172,844	-	-
Foreign common stock	2,386,963	-	-
Equity and bond mutual funds:			
Large-cap equity funds	4,511,578	-	-
International equity fund	6,332,162	-	-
Domestic equity index fund	5,012,931	-	-
Fixed income fund	3,738,748	-	-
Fund of funds	-	-	4,456,911
Mortgage-backed securities	-	808,678	-
Corporate bonds	9,783,731	-	-
Foreign government bonds	91,095	-	-

Rheumatology Research Foundation
Notes to Financial Statements

	Asset at Fair Value as of June 30, 2014		
	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	\$ 548,296	\$ -	\$ -
Equity securities:			
Domestic common stock	4,262,160	-	-
Foreign common stock	2,668,353	-	-
Equity and bond mutual funds:			
Large-cap equity funds	4,581,760	-	-
International equity fund	5,906,116	-	-
Domestic equity index fund	6,455,271	-	-
Fixed income fund	2,973,635	-	-
Fund of funds	-	-	4,652,933
Mortgage-backed securities	-	3,795,186	-
Corporate bonds	6,553,558	-	-
Foreign government bonds	91,087	-	-
US Treasury notes	1,036,820	-	-

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Contributions and grants receivable, gross	\$ 14,367,349	\$ 20,369,594
Less unamortized discount	<u>(266,894)</u>	<u>(306,724)</u>
Contributions and grants receivable, net	<u>\$ 14,100,455</u>	<u>\$ 20,062,870</u>
Contributions and grants receivable expected to be collected in:		
Less than one year	\$ 5,088,379	\$ 5,535,280
One to five years	<u>9,012,076</u>	<u>14,527,590</u>
	<u>\$ 14,100,455</u>	<u>\$ 20,062,870</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. Estimated future cash flows to be received after one year but before four years were discounted at June 30, 2015 and 2014 using a discount rate of 0.90% and 0.54%, respectively. Estimated future cash flows to be received in four to five years were discounted at June 30, 2015 and 2014 using a discount rate of 1.64% and 1.17%, respectively. Estimated future cash flows to be received in six to seven years were discounted at June 30, 2015 using a discount rate of 2.14%. Estimated future cash flows expected to be received after seven years were discounted at June 30, 2015 using a discount rate of 2.54%.

Rheumatology Research Foundation
Notes to Financial Statements

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, 2015. Fiscal years ending on and after June 30, 2013 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.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Clinician Scholar Educator Award	\$ 360,000	\$ 240,000	\$ 120,000	\$ 720,000
Rheumatology Investigator Award	1,125,000	875,000	375,000	2,375,000
Rheumatology Scientist Development Award	2,175,000	2,437,500	1,550,000	6,162,500
Bridge Funding Awards	762,500	50,000	-	812,500
Targeted Research Grants	6,100,000	2,400,000	-	8,500,000
Disease Targeted Research Grants (WOR)	<u>294,927</u>	<u>-</u>	<u>-</u>	<u>294,927</u>
	<u>\$ 10,817,427</u>	<u>\$ 6,002,500</u>	<u>\$ 2,045,000</u>	<u>\$18,864,927</u>

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 \$2,128,389 and \$1,924,616 in 2015 and 2014, respectively, and are included in management fees in the accompanying statements of functional expenses.

Included in net accounts payable at June 30, 2015 and 2014 is \$755,608 and \$371,523 due to the College, respectively.

Included in prepaid expenses and other assets at June 30, 2015 and 2014 is \$31,213 and \$140,095 due from the College, respectively.

8. Major Contributors and Campaign Fund Raising

Foundation contributions from the top five donors amounted to approximately 91% and 78% of contributions for fiscal 2015 and 2014, respectively. The related gross contributions receivable from these donors at June 30, 2015 and 2014 were approximately \$1,017,000 and \$11,945,000, respectively.

In November 2012, 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 supports programs to attract and train the next generation of rheumatologists and rheumatology health professionals, and expand programs to foster and support novel hypothesis research in inflammatory arthritis. The Foundation raised \$2,228,414 and \$12,278,552 in contributions and commitments for the "Journey to Cure" campaign during 2015 and 2014, respectively, recorded within gifts and grants. Total gross contribution receivables related to this campaign were \$14,399,207 and \$20,372,879 as of June 30, 2015 and 2014, 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:

	<u>2015</u>	<u>2014</u>
Time restrictions	\$ 5,465,263	\$ 3,178,534
Disease Targeted Research	3,826,340	394,766
Fellowship Training Awards	750,000	750,000
Fellows Education Fund	426,719	371,523
Rheumatology Scientist Development Award	-	100,000
Pediatric Visiting Professor Program	39,750	34,194
Paula Demerieux Fellowship Training Award	25,041	48
Lawren H Daltroy Fellowship	230	23
Rheumatology Development Fund	-	212,439
Geriatric Medicine Career Development Award	12,500	12,500
Engleman Resident Research Preceptorship	11,636	18,496
Memorial Lectureships	13,853	11,459
Clinician Scholar Educator Award	42,250	61,000
Journey to Cure Campaign	2,205,000	2,205,000
Other educational and research programs	<u>5,000</u>	<u>5,000</u>
	<u>\$ 12,823,582</u>	<u>\$ 7,354,982</u>

Rheumatology Research Foundation
Notes to Financial Statements

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 are restricted for the following purposes:

	<u>2015</u>	<u>2014</u>
Time Restrictions	\$ 14,061,362	\$ 18,571,847
Journey to Cure Campaign	4,439,509	6,627,777
Disease Targeted Research	1,760,650	5,588,074
Rheumatology Fellowship Training Awards	1,168,875	1,871,625
Pediatric Visiting Professor Program	931,334	915,170
Gaylis Community Practice Award	898,659	-
Fellows Education Fund	535,375	940,344
Memorial Lectureships	238,708	236,607
Engleman Resident Research Preceptorship	159,782	158,232
Lawren H Daltroy Fellowship	145,185	136,364
Paula Demerieux Fellowship Training Award	113,299	125,572
Malawista Endowment in Academic Rheumatology	50,866	28,038
Presidential Gold Medal Award	17,428	19,913
Clinician Scholar Educator Award	-	41,250
	<u>\$ 24,521,032</u>	<u>\$ 35,260,813</u>

On October 26, 2002, the Foundation received a term endowment to fund the Rheumatology Development Fund. The term endowment was recorded as temporarily restricted revenue based upon the donor imposed restriction. Upon expiration of the agreement during 2014, and pursuant to the donor agreement, principal and accrued income of the fund, which as of the date of transfer had a total value of \$5,115,243, was incorporated into the General Endowment Fund of the Foundation.

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.

	<u>2015</u>	<u>2014</u>
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 Fellowship Training Award	320,520	320,520
Lawren H. Daltroy Fellowship	169,260	169,260
Presidential Gold Medal Award	74,503	74,503
Engleman Resident Research Preceptorship	300,000	300,000
Malawista Endowment in Academic Rheumatology	994,290	989,346
Memorial Lectureships	<u>334,512</u>	<u>334,512</u>
	<u>\$ 3,300,085</u>	<u>\$ 3,295,141</u>

**Rheumatology Research Foundation
Notes to Financial Statements**

12. Endowment

The Foundation's endowment consists of approximately 13 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.

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, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Donor restricted endowment funds	\$ (47,346)	\$ 1,656,603	\$ 3,300,085	\$ 4,909,342
Board designated funds – General Endowment	<u>31,480,480</u>	<u>-</u>	<u>-</u>	<u>31,480,480</u>
Total Funds	<u>\$ 31,433,134</u>	<u>\$ 1,656,603</u>	<u>\$ 3,300,085</u>	<u>\$ 36,389,822</u>

Endowment net asset composition by type of fund as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Donor restricted endowment funds	\$ (47,210)	\$ 1,619,896	\$ 3,295,141	\$ 4,867,827
Board designated funds – General Endowment	<u>31,961,788</u>	<u>-</u>	<u>-</u>	<u>31,961,788</u>
Total Funds	<u>\$ 31,914,578</u>	<u>\$ 1,619,896</u>	<u>\$ 3,295,141</u>	<u>\$ 36,829,615</u>

Rheumatology Research Foundation
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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Endowment net assets, June 30, 2013	\$ 24,361,924	\$ 5,844,266	\$ 2,305,795	\$ 32,511,985
Investment return:				
Investment income	482,535	163,254	-	645,789
Net appreciation (realized and unrealized)	<u>2,995,706</u>	<u>1,009,279</u>	<u>-</u>	<u>4,004,985</u>
Total investment return	3,478,241	1,172,533	-	4,650,774
New Gifts	-	-	1,000,000	1,000,000
Appropriation of endowment assets for expenditure	(1,044,000)	(281,660)	-	(1,325,660)
Other charges:				
Discount on receivables	-	-	(10,654)	(10,654)
Other additions	3,170	-	-	3,170
Transfer of term endowment to general board endowment	<u>5,115,243</u>	<u>(5,115,243)</u>	<u>-</u>	<u>-</u>
Total other charges	<u>5,118,243</u>	<u>(5,115,243)</u>	<u>(10,654)</u>	<u>(7,484)</u>
Endowment net assets, June 30, 2014	<u>\$ 31,914,578</u>	<u>\$ 1,619,896</u>	<u>\$ 3,295,141</u>	<u>\$ 36,829,615</u>
Investment return:				
Investment income	2,019,592	293,629	-	2,313,221
Net appreciation (realized and unrealized)	<u>(1,127,704)</u>	<u>(161,412)</u>	<u>-</u>	<u>(1,289,116)</u>
Total investment return	891,888	132,217	-	1,024,105
Appropriation of endowment assets for expenditure	(1,373,134)	(95,510)	-	(1,468,644)
Other charges:				
Discount on receivables	-	-	4,944	4,944
Other deletions	<u>(198)</u>	<u>-</u>	<u>-</u>	<u>(198)</u>
Total other charges	<u>(198)</u>	<u>-</u>	<u>4,944</u>	<u>4,746</u>
Endowment net assets, June 30, 2015	<u>\$ 31,433,134</u>	<u>\$ 1,656,603</u>	<u>\$ 3,300,085</u>	<u>\$ 36,389,822</u>

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, 2015 or 2014.

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, 2015) plus 2.00%. The line of credit expires on February 28, 2016. No amounts were drawn on the line in 2015 or 2014.