



Rheumatology Research Foundation

Financial Statements

Years Ended June 30, 2021 and 2020



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Independent Auditors' Report

Board of Directors
Rheumatology Research Foundation
Atlanta, Georgia

We have audited the accompanying statements of financial position of the Rheumatology Research Foundation (the "Foundation") as of June 30, 2021 and 2020 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 audit 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, 2021 and 2020, and the changes in its net assets, functional expenses, 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, GA
November 19, 2021

Rheumatology Research Foundation
 Statements of Financial Position
 June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Assets:		
Cash and cash equivalents	\$ 10,248,100	\$ 10,316,034
Investments	55,830,445	43,518,146
Contributions and grants receivable, net	20,573,206	17,051,600
Prepaid expenses and other assets	172,577	40,762
Property and equipment, less accumulated depreciation of \$180,240 and \$159,207 in 2021 and 2020, respectively	<u>30,091</u>	<u>51,125</u>
Total assets	<u>\$ 86,854,419</u>	<u>\$ 70,977,667</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	<u>\$ 675,347</u>	<u>\$ 660,623</u>
Total liabilities	675,347	660,623
Net assets:		
With donor restrictions	32,225,840	24,259,140
Without donor restrictions:		
Designated by board for education and research awards	38,321,758	32,131,696
Other	<u>15,631,474</u>	<u>13,926,208</u>
Total net assets	<u>86,179,072</u>	<u>70,317,044</u>
Total liabilities and net assets	<u>\$ 86,854,419</u>	<u>\$ 70,977,667</u>

Rheumatology Research Foundation
 Statements of Activities
 Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions:		
Revenue:		
Gifts and grants	\$ 1,703,384	\$ 1,335,195
Investment and interest income	653,037	816,149
Net realized and unrealized gains on investments	8,619,071	676,928
Miscellaneous income	435	255
Net assets released from restriction	<u>12,659,150</u>	<u>12,464,152</u>
Total unrestricted revenues	<u>23,635,077</u>	<u>15,292,679</u>
Expenses:		
Program services:		
Research	8,847,185	7,090,780
Education	2,923,899	3,026,744
Lectureships	103,393	196,480
Impact	<u>882,818</u>	<u>839,203</u>
Total program services	<u>12,757,295</u>	<u>11,153,207</u>
Support services:		
Administrative	296,464	385,253
Fundraising	<u>2,685,990</u>	<u>1,692,655</u>
Total support services	<u>2,982,454</u>	<u>2,077,908</u>
Total expenses	<u>15,739,749</u>	<u>13,231,115</u>
Change in net assets without donor restrictions	<u>7,895,328</u>	<u>2,061,564</u>
Changes in net assets with donor restrictions:		
Gifts and grants	18,788,141	7,918,936
Investment and interest income	129,032	149,413
Net realized and unrealized gains on investments	1,708,677	130,304
Net assets released from restriction	<u>(12,659,150)</u>	<u>(12,464,152)</u>
Change in net assets with donor restrictions	<u>7,966,700</u>	<u>(4,265,499)</u>
Change in net assets	15,862,028	(2,203,935)
Net assets at beginning of year	<u>70,317,044</u>	<u>72,520,979</u>
Net assets at end of year	<u>\$ 86,179,072</u>	<u>\$ 70,317,044</u>

Rheumatology Research Foundation
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services				Support Services		Total	
	Research	Education	Lectureships	Impact	Administrative	Fundraising	2021	2020 (Memo only)
Awards and grants	\$ 8,085,030	\$ 2,496,346	\$ 15,750	\$ -	\$ -	\$ -	\$ 10,597,126	\$ 8,898,733
Professional fees	204,455	56,600	2,323	460,018	44,235	249,491	1,017,122	848,443
Management fees	499,659	362,717	84,980	385,632	219,805	1,319,605	2,872,398	2,789,375
Printing	-	-	-	21,705	522	5,889	28,116	33,998
Travel	(1,419)	(1,188)	-	(835)	(1,535)	(1,727)	(6,704)	250,547
Meetings/conferences	28,040	2,122	-	837	3,985	55,268	90,252	247,257
Postage	1,221	142	-	6,573	317	13,633	21,886	9,560
Supplies	6,075	2,021	340	924	2,213	4,952	16,525	27,441
Depreciation expense	4,207	4,207	-	4,207	4,206	4,207	21,034	38,130
Staff education	16,085	361	-	720	5,120	18,625	40,911	14,390
Equipment rental	-	-	-	-	-	-	-	36,603
Telephone	3,421	571	-	3,071	4,544	12,113	23,720	17,988
Contribution write-off	-	-	-	-	-	1,000,000	1,000,000	-
Miscellaneous expenses	411	-	-	(34)	13,052	3,934	17,363	18,650
	<u>\$ 8,847,185</u>	<u>\$ 2,923,899</u>	<u>\$ 103,393</u>	<u>\$ 882,818</u>	<u>\$ 296,464</u>	<u>\$ 2,685,990</u>	<u>\$ 15,739,749</u>	<u>\$ 13,231,115</u>

See accompanying notes.

Rheumatology Research Foundation
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services				Support Services		Total	
	Research	Education	Lectureships	Impact	Administrative	Fundraising	2020	2019 (Memo only)
Awards and grants	\$ 6,341,272	\$ 2,540,711	\$ 16,750	\$ -	\$ -	\$ -	\$ 8,898,733	\$ 8,240,674
Professional fees	105,836	33,724	6,809	486,143	42,639	173,292	848,443	663,907
Management fees	492,598	362,084	169,179	230,808	260,243	1,274,463	2,789,375	2,337,575
Printing	13	13	-	24,977	134	8,861	33,998	25,871
Travel	85,512	64,018	970	26,818	24,975	48,254	250,547	463,812
Meetings/conferences	48,255	16,708	980	20,007	15,819	145,488	247,257	343,612
Postage	198	223	-	2,774	918	5,447	9,560	19,315
Supplies	3,307	1,406	567	1,014	10,672	10,475	27,441	13,648
Depreciation expense	7,397	7,396	1,225	7,320	7,396	7,396	38,130	35,271
Staff education	3,491	46	-	490	2,065	8,298	14,390	22,002
Equipment rental	-	-	-	36,603	-	-	36,603	37,836
Telephone	2,129	415	-	2,154	2,836	10,454	17,988	16,534
Contribution write-off	-	-	-	-	-	-	-	8,975
Miscellaneous expenses	772	-	-	95	17,556	227	18,650	29,395
	<u>\$ 7,090,780</u>	<u>\$ 3,026,744</u>	<u>\$ 196,480</u>	<u>\$ 839,203</u>	<u>\$ 385,253</u>	<u>\$ 1,692,655</u>	<u>\$ 13,231,115</u>	<u>\$ 12,258,427</u>

See accompanying notes.

Rheumatology Research Foundation
 Statements of Cash Flows
 Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 15,862,028	\$ (2,203,935)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,034	38,130
Net realized and unrealized gains on investments	(10,327,748)	(807,232)
Change in assets and liabilities:		
Contributions and grants receivable, net	(3,521,606)	4,993,618
Prepaid expenses	(131,815)	30,779
Accounts payable	14,724	(92,583)
Net cash provided by operating activities	<u>1,916,617</u>	<u>1,958,777</u>
Cash flows from investing activities:		
Purchases of investments	(37,876,537)	(25,062,100)
Proceeds from sale of investments	<u>35,891,986</u>	<u>25,315,897</u>
Net cash (used in) provided by investing activities	<u>(1,984,551)</u>	<u>253,797</u>
Net (decrease) increase in cash and cash equivalents	(67,934)	2,212,574
Cash and cash equivalents at beginning of year	<u>10,316,034</u>	<u>8,103,460</u>
Cash and cash equivalents at end of year	<u>\$ 10,248,100</u>	<u>\$ 10,316,034</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.

Subsequent events

The Foundation evaluated the effect subsequent events would have on the financial statements from July 1, 2021 through November 19, 2021, which is the date the financial statements were available to be issued.

3. Investments

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

	2021		2020	
	Cost	Fair value	Cost	Fair value
Cash and equivalents	\$ 1,206,301	\$ 1,206,301	\$ 1,292,739	\$ 1,292,739
Equity securities	10,549,573	18,032,239	11,314,671	14,597,748
Equity funds	13,225,233	18,481,178	11,875,145	13,073,966
Bond mutual funds	6,417,299	6,451,150	5,047,443	5,087,770
Mortgage-backed securities	4,072,808	4,087,675	3,537,727	3,674,683
Corporate bonds	5,288,391	5,480,855	4,905,309	5,217,378
U.S. Treasury notes	2,213,234	2,091,047	536,752	573,862
Total	\$ 42,972,838	\$ 55,830,445	\$ 38,509,786	\$ 43,518,146

Rheumatology Research Foundation
Notes to Financial Statements

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, 2021 and 2020.

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.

	<u>Fair Value at 6/30/2021</u>	<u>Fair Value at 6/30/2020</u>	<u>Unfunded Commitments</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period (iii)</u>
Mill Creek International Absolute Return Fund (i)	\$ 2,468,271	\$ 2,136,380	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)	\$ 985,731	\$ 695,770	208,888	(iii)	(iii)
Mill Creek Private Equity Fund V (ii)	\$ 318,565	\$ 144,774	666,272	(iii)	(iii)

- (i) The Mill Creek International Absolute Return Fund consists of 14 underlying funds. The fund's investment objectives are to generate returns with a premium to investment grade fixed income returns with limited correlation to traditional asset classes over a complete market cycle through investments in hedge funds and, to a more limited extent, closed-end funds and mutual funds. The fund maintains portfolio diversification by limiting allocation of the fund's net asset value to (1) 30% of any one investment strategy, (2) 20% to any one underlying fund, and (3) 25% to funds that primarily invest in private investments or investments where the manager of the underlying fund does not expect to receive regular third-party pricing for a substantial portion of the respective portfolio.
- (ii) The Mill Creek Capital Advisors' Private Equity Fund is designed to provide a diversified portfolio for investing in venture capital, buyout, real estate, and other non-publicly traded equity and debt securities and strategies. The portfolio seeks to produce a strongly positive long-term total return with a low correlation of returns to those produced by other segments of global capital markets. The fund will invest in private partnerships that are expected to be long-lived (approximately ten years) and for which there is expected to be little to no interim liquidity.
- (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.

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.

Rheumatology Research Foundation
Notes to Financial Statements

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, 2021 and 2020.

	Fair Value at June 30, 2021	Fair Value Measurements as of June 30, 2021		
		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	\$ 1,206,301	\$ 1,206,301	\$ -	\$ -
Equity securities:				
Domestic common stock	14,849,605	14,849,605	-	-
Foreign common stock	3,182,635	3,182,635	-	-
Equity and bond mutual funds:				
Large-cap equity funds	669,906	669,906	-	-
International equity fund	7,405,815	7,405,815	-	-
Domestic equity index fund	6,632,890	6,632,890	-	-
Fixed income fund	6,451,150	6,451,150	-	-
Mortgage-backed securities	4,087,675	-	4,087,675	-
Corporate bonds	5,480,855	5,480,855	-	-
U.S Treasury notes	2,091,047	2,091,047	-	-
Total assets in the fair value hierarchy	52,057,878	\$ 47,969,876	\$ 4,087,675	\$ -
Investments at NAV (a)	3,772,567			
Total investments at fair value	\$ 55,830,445			

(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 balance sheets.

Rheumatology Research Foundation
Notes to Financial Statements

	Fair Value at June 30, 2020	Fair value measurements as of June 30, 2020		
		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	\$ 1,292,739	\$ 1,292,739	\$ -	\$ -
Equity securities:				
Domestic common stock	12,034,470	12,034,470	-	-
Foreign common stock	2,563,278	2,563,278	-	-
Equity and bond mutual funds:				
Large-cap equity funds	558,883	558,883	-	-
International equity fund	5,840,497	5,840,497	-	-
Domestic equity index fund	3,697,662	3,697,662	-	-
Fixed income fund	5,087,770	5,087,770	-	-
Mortgage-backed securities	3,674,683	-	3,674,683	-
Corporate bonds	5,217,378	5,217,378	-	-
U.S Treasury notes	573,862	573,862	-	-
Total assets in the fair value hierarchy	40,541,222	\$ 36,866,539	\$ 3,674,683	\$ -
Investments at NAV (a)	2,976,924			
Total investments at fair value	\$ 43,518,146			

(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 balance sheets.

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, 2021 and 2020:

	2021	2020
Contributions and grants receivable, gross	\$ 20,742,845	\$ 17,459,907
Less unamortized discount	(169,639)	(408,307)
Contributions and grants receivable, net	\$ 20,573,206	\$ 17,051,600
Contributions and grants receivable expected to be collected in:		
Less than one year	\$ 7,400,444	\$ 7,292,498
One to five years	12,835,264	9,597,181
Greater than five years	337,498	161,921
	\$ 20,573,206	\$ 17,051,600

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 five years were discounted at June 30, 2021 and 2020 using a discount rate of 0.42% and 1.94%, respectively. Estimated future cash flows to be received in five to six years were discounted at June 30, 2021 and 2020 using a discount rate of 0.53% and 1.95%, respectively. Estimated future cash flows to be received in seven to nine years were discounted at June 30, 2021 and 2020 using a discount rate of 0.72% and 2.05%, respectively. Estimated future cash flows expected to be received after ten years were discounted at June 30, 2021 and 2020 using a discount rate of 0.89% and 2.14%, respectively.

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 2021 or 2020.

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, 2021.

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>2022</u>	<u>2023</u>	<u>Total</u>
Clinician Scholar Educator Award	\$ 300,000	\$ 120,000	\$ 420,000
Investigator Award	750,000	500,000	1,250,000
Future Physician Scientist Award	30,000	-	30,000
Scientist Development Award	1,400,000	700,000	2,100,000
Bridge Funding Award	800,000	-	800,000
Fellowship Training Award for Workforce Expansion	150,000	50,000	200,000
Innovative Research Award	<u>1,880,000</u>	<u>-</u>	<u>1,880,000</u>
	<u>\$ 5,310,000</u>	<u>\$ 1,370,000</u>	<u>\$ 6,680,000</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 \$2,872,398 and \$2,789,375 in 2021 and 2020, respectively, and are included in management fees in the accompanying statements of functional expenses. Included in net accounts payable at June 30, 2021 and 2020 is \$625,994 and \$622,499 due to the College for management fees, respectively.

Included in contributions and grants receivable, net at June 30, 2021 and 2020 is \$7,500,000 and \$1,400,000 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 77% and 88% of total contributions for fiscal years 2021 and 2020, respectively. The related gross contributions receivable from these donors at June 30, 2021 and 2020 were approximately \$11,300,000 and \$3,900,000, respectively.

In January 2017, the Foundation began fundraising for *Leading Boldly: Transforming Rheumatology*, a multi-year campaign with a goal to raise \$75 Million, of which an estimated 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. Total gross contribution receivables related to this campaign were \$15,285,844 and \$17,510,906 as of June 30, 2021 and 2020, respectively.

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>2021</u>	<u>2020</u>
Time Restrictions	\$ 11,120,505	\$ 11,316,748
Fellowship Training Awards	450,000	700,000
Fellows Education Fund	350,000	350,000
Pediatric Visiting Professor Program	2,207	1,267
Paula DeMerieux Fellowship Training Award	13,589	50,038
Lawren H Daltroy Fellowship	-	10,767
Memorial Lectureships	12,368	12,190
Clinician Scholar Educator Award	8,500	3,000
Marshall Schiff Memorial Research Award	4,500	5,000
Malawista Endowment in Academic Rheumatology	181,849	-
Donor Direct – Telehealth App	100,000	-
Andrejeski Fund	50,000	-
Research Programs	<u>365,632</u>	<u>15,142</u>
	<u>\$ 12,659,150</u>	<u>\$ 12,464,152</u>

11. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2021 and 2020 are restricted for the following purposes:

	<u>2021</u>	<u>2020</u>
<i>Subject to the passage of time:</i>		
Time Restrictions	\$ 18,060,156	\$ 14,287,075
<i>Subject to expenditure for specified purpose:</i>		
Fellowship Training Awards	300,000	666,041
Gaylis Award	668,923	997,974
Pediatric Visiting Professor Program	2,079,586	1,421,679
Fellows Education Fund	350,000	649,506
Memorial Lectureships	516,433	244,057
Education Funds	1,513,385	456,012
Lawren H Daltroy Award	266,310	173,430
Engleman Resident Research Preceptorship	529,453	312,063
Paula DeMerieux Fellowship Training Award	159,176	56,742
Marshall Schiff Memorial Research Award	147,907	99,189
Malawista Endowment in Academic Rheumatology	590,964	363,273
Research Funds	1,908,698	-
<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	1,000,000	1,000,000
Marshall Schiff Memorial Research Award	100,000	100,000
Daniel J Wallace, MD Graduate Student Preceptorship Endowment	300,000	-
Majithia Family Endowment	300,000	-
Memorial Lectureships	238,762	236,012
	<u>\$ 32,225,840</u>	<u>\$ 24,259,140</u>

12. Endowment

The Foundation's endowment consists of 14 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
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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, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Endowment funds	\$ 5,907,198	\$ 9,443,031	\$ 15,350,229
Board designated funds – general endowment	<u>32,213,065</u>	<u>-</u>	<u>32,213,065</u>
Total funds	<u>\$ 38,120,263</u>	<u>\$ 9,443,031</u>	<u>\$ 47,563,294</u>

Endowment net asset composition by type of fund as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Endowment funds	\$ 5,000,922	\$ 7,192,373	\$ 12,193,295
Board designated funds – general endowment	<u>27,007,090</u>	<u>-</u>	<u>27,007,090</u>
Total funds	<u>\$ 32,008,012</u>	<u>\$ 7,192,373</u>	<u>\$ 39,200,385</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, 2019	\$ 32,095,820	\$ 6,955,456	\$ 39,051,276
Investment return:			
Investment income	680,835	149,414	830,249
Net appreciation (realized and unrealized)	<u>587,585</u>	<u>130,305</u>	<u>717,890</u>
Total investment return	1,268,420	279,719	1,548,139
Appropriation of endowment assets for expenditure	(1,356,228)	(79,273)	(1,435,501)
Other charges:			
Discount on receivables	-	35,971	35,971
Other additions	<u>-</u>	<u>500</u>	<u>500</u>
Total other charges	<u>-</u>	<u>36,471</u>	<u>36,471</u>
Endowment net assets, June 30, 2020	32,008,012	7,192,373	39,200,385
Investment return:			
Investment income	2,250,775	533,285	2,784,060
Net appreciation (realized and unrealized)	<u>5,536,223</u>	<u>1,304,423</u>	<u>6,840,646</u>
Total investment return	7,786,998	1,837,708	9,624,706
Appropriation of endowment assets for expenditure	(1,674,747)	(214,512)	(1,889,259)
Other charges:			
Discount on receivables	-	24,712	24,712
Other additions	<u>-</u>	<u>602,750</u>	<u>602,750</u>
Total other charges	<u>-</u>	<u>627,462</u>	<u>627,462</u>
Endowment net assets, June 30, 2021	<u>\$ 38,120,263</u>	<u>\$ 9,443,031</u>	<u>\$ 47,563,294</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. Deficiencies of this nature that are reported in net assets without distributions were \$18,359 and \$10,150 as of June 30, 2021 and 2020 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 limited 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 10,248,100	\$ 10,316,034
Contributions and grant receivables, net	<u>7,400,444</u>	<u>7,292,498</u>
Total	<u>\$ 17,648,544</u>	<u>\$ 17,608,532</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 \$38,120,263 as of June 30, 2021, these amounts could be made available if necessary.