

Rheumatology Research Foundation

Financial Statements

Years Ended June 30, 2016 and 2015

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, 2016 and 2015 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, 2016 and 2015, 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 1, 2016**

Rheumatology Research Foundation
Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ 3,342,505	\$ 5,286,208
Investments	39,649,355	43,467,099
Contributions and grants receivable, net	7,286,948	14,100,455
Prepaid expenses and other assets	107,080	52,661
Property and equipment, less accumulated depreciation of \$137,038 and \$105,523 in 2016 and 2015, respectively	<u>212,150</u>	<u>227,028</u>
Total assets	<u>\$ 50,598,038</u>	<u>\$ 63,133,451</u>
Liabilities:		
Accounts payable	\$ 388,895	\$ 918,896
Line of credit payable	<u>1,500,000</u>	<u>-</u>
Total liabilities	1,888,895	918,896
Net assets:		
Donor restricted:		
Temporarily restricted	16,214,941	24,521,032
Permanently restricted	3,302,917	3,300,085
Unrestricted:		
Designated by board for education and research awards	29,602,155	31,480,542
Other	<u>(410,870)</u>	<u>2,912,896</u>
Total net assets	<u>48,709,143</u>	<u>62,214,555</u>
Total liabilities and net assets	<u>\$ 50,598,038</u>	<u>\$ 63,133,451</u>

Rheumatology Research Foundation
Statements of Activities
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets:		
Revenue:		
Gifts and grants	\$ 2,234,615	\$ 739,942
Investment and interest income	834,909	897,039
Net realized and unrealized (losses) gains on investments	(1,315,828)	212,061
Net assets released from restriction	<u>9,573,515</u>	<u>12,823,582</u>
Total unrestricted revenues	<u>11,327,211</u>	<u>14,672,624</u>
Expenses:		
Program services:		
Research	11,041,254	10,641,578
Education	2,907,687	2,306,574
Lectureship	<u>301,338</u>	<u>298,021</u>
Total program services	<u>14,250,279</u>	<u>13,246,173</u>
Support services:		
Administrative	542,147	1,236,331
Fundraising	<u>1,736,938</u>	<u>1,429,163</u>
Total support services	<u>2,279,085</u>	<u>2,665,494</u>
Total expenses	<u>16,529,364</u>	<u>15,911,667</u>
Change in unrestricted net assets	<u>(5,202,153)</u>	<u>(1,239,043)</u>
Changes in temporarily restricted net assets:		
Gifts and grants	1,317,332	1,952,737
Investment and interest income	108,007	103,529
Net realized and unrealized gains on investments	(157,915)	27,535
Net assets released from restriction	<u>(9,573,515)</u>	<u>(12,823,582)</u>
Change in temporarily restricted net assets	<u>(8,306,091)</u>	<u>(10,739,781)</u>
Changes in permanently restricted net assets:		
Gifts and grants	<u>2,832</u>	<u>4,944</u>
Change in permanently restricted net assets	<u>2,832</u>	<u>4,944</u>
Change in net assets	(13,505,412)	(11,973,880)
Net assets at beginning of year	<u>62,214,555</u>	<u>74,188,435</u>
Net assets at end of year	<u>\$ 48,709,143</u>	<u>\$ 62,214,555</u>

See accompanying notes.

**Rheumatology Research Foundation
Statement of Functional Expenses
Years ended June 30, 2016 and 2015**

	Program Services			Support Services		Total	
	Research	Education	Lectureship	Administrative	Fundraising	2016	2015
Awards	\$ 10,308,903	\$ 2,313,927	\$ 16,750	\$ -	\$ -	\$ 12,639,580	\$ 11,722,359
Professional fees	107,045	89,761	37,866	129,056	291,030	654,758	1,095,055
Management fees	415,970	335,838	204,489	267,244	1,076,104	2,299,645	2,128,389
Printing	5,210	1,609	1,543	1,871	36,732	46,965	85,781
Travel	82,849	117,305	18,421	54,051	95,875	368,501	449,697
Meetings/conferences	98,174	41,231	15,672	35,996	149,524	340,597	310,241
Postage	2,990	550	-	1,685	9,657	14,882	20,809
Supplies	5,045	985	116	2,229	5,938	14,313	18,807
Depreciation expense	6,307	6,307	6,307	6,307	6,307	31,535	25,551
Staff education	8,232	-	-	1,417	6,854	16,503	27,950
Equipment rental	-	-	-	-	14,944	14,944	-
Telephone	480	174	174	5,286	8,662	14,776	7,606
Interest	-	-	-	20,892	-	20,892	-
Bad debt write-off	-	-	-	-	35,150	35,150	-
Miscellaneous expenses	49	-	-	16,113	161	16,323	19,422
	<u>\$ 11,041,254</u>	<u>\$ 2,907,687</u>	<u>\$ 301,338</u>	<u>\$ 542,147</u>	<u>\$ 1,736,938</u>	<u>\$ 16,529,364</u>	<u>\$ 15,911,667</u>

**Rheumatology Research Foundation
Statement of Functional Expenses
Years ended June 30, 2015 and 2014**

	Program Services			Support Services		Total	
	Research	Education	Lectureship	Administrative	Fundraising	2015	2014 (Memo only)
Awards	\$ 9,888,826	\$ 1,816,783	\$ 16,750	\$ -	\$ -	\$ 11,722,359	\$ 10,982,675
Professional fees	90,990	75,403	34,781	719,914	173,967	1,095,055	546,846
Management fees	377,014	291,307	210,857	349,085	900,126	2,128,389	1,924,616
Printing	16,043	6,271	3,000	4,287	56,180	85,781	82,006
Travel	133,785	90,674	20,681	81,374	123,183	449,697	373,605
Meetings/conferences	114,183	16,805	6,334	36,550	136,369	310,241	238,668
Postage	3,747	1,104	158	2,343	13,457	20,809	30,352
Supplies	4,612	3,046	278	3,873	6,998	18,807	13,627
Depreciation expense	5,110	5,110	5,111	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	227	71	71	2,222	5,015	7,606	1,216
Miscellaneous expenses	75	-	-	17,226	2,121	19,422	21,591
	<u>\$ 10,641,578</u>	<u>\$ 2,306,574</u>	<u>\$ 298,021</u>	<u>\$ 1,236,331</u>	<u>\$ 1,429,163</u>	<u>\$ 15,911,667</u>	<u>\$ 14,316,619</u>

Rheumatology Research Foundation
Statements of Cash Flows
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (13,505,412)	\$ (11,973,880)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	31,535	25,551
Net realized and unrealized (gains) losses on investments	1,473,743	(239,596)
Change in assets and liabilities:		
Contributions and grants receivable, net	6,813,507	5,962,415
Prepaid expenses	(54,419)	109,216
Accounts payable	(530,001)	503,962
Net cash used in operating activities	<u>(5,771,047)</u>	<u>(5,612,332)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(16,657)	(54,893)
Purchases of investments	(32,285,644)	(48,113,468)
Proceeds from sale of investments	34,629,645	48,411,140
Net cash provided by investing activities	<u>2,327,344</u>	<u>242,779</u>
Cash flows from financing activities:		
Proceeds from draws on line of credit, net	1,500,000	-
Net cash provided by financing activities	<u>1,500,000</u>	<u>-</u>
Net decrease in cash and cash equivalents	(1,943,703)	(5,369,553)
Cash and cash equivalents at beginning of year	<u>5,286,208</u>	<u>10,655,761</u>
Cash and cash equivalents at end of year	<u>\$ 3,342,505</u>	<u>\$ 5,286,208</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 statements of financial position. These securities consist primarily of investments in equity securities, equity mutual 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. 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.

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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, 2016 through October 1, 2016, which is the date the financial statements were available to be issued. Refer to footnote 13 for discussion of draw down on line of credit subsequent to year end.

Reclassifications

Certain reclassifications have been made to the June 30, 2015 financial statements included here to conform to the June 30, 2016 presentation. These classifications had no effect on the financial position, results of operations, or cash flows of the Foundation.

3. Investments

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

	2016		2015	
	Cost	Fair value	Cost	Fair value
Cash and equivalents	\$ 3,514,749	\$ 3,517,749	\$ 2,171,458	\$ 2,171,458
Equity securities	4,914,609	5,368,586	5,540,719	6,559,807
Equity mutual funds	19,160,324	18,719,927	19,404,431	20,313,582
Bond mutual funds	2,633,207	2,429,248	3,843,138	3,738,748
Mortgage-backed securities	428,548	371,999	865,787	808,678
Corporate bonds	8,329,888	8,462,078	10,017,126	9,783,731
Foreign government bonds	270,154	276,930	91,074	91,095
U.S. treasury notes	505,771	505,838	-	-
Total	<u>\$ 39,757,250</u>	<u>\$ 39,649,355</u>	<u>\$ 41,933,733</u>	<u>\$ 43,467,099</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 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

Rheumatology Research Foundation
Notes to Financial Statements

partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions.

The rollforward of Level 3 investments during 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 4,456,911	\$ 4,652,933
Sales	-	(4,647,595)
Purchases	-	4,380,000
Increase (decrease) in market value	<u>(52,974)</u>	<u>71,573</u>
Ending Balance	<u>\$ 4,403,937</u>	<u>\$ 4,456,911</u>

There were no amounts transferred into or out of Level 3 during the years ended June 30, 2016 and 2015 respectively. Changes in Level 3 investment value during 2016 were due to changes in market value. Changes in Level 3 investment value during 2015 were due to changes in market value and sales and purchases of investments. There were no changes during the year ended June 30, 2016 and 2015 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, 2016 and 2015.

	<u>Asset at Fair Value as of June 30, 2016</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	\$ 3,514,749	\$ -	\$ -
Equity securities:			
Domestic common stock	3,486,125	-	-
Foreign common stock	1,882,461	-	-
Equity and bond mutual funds:			
Large-cap equity funds	3,933,588	-	-
International equity fund	5,426,850	-	-
Domestic equity index fund	4,955,552	-	-
Fixed income fund	2,429,248	-	-
Fund of funds	-	-	4,403,937
Mortgage-backed securities	-	371,999	-
Corporate bonds	8,462,078	-	-
Foreign government bonds	276,930	-	-
U.S. treasury notes	505,838	-	-

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Notes to Financial Statements

	Asset at Fair Value as of June 30, 2015		
	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	\$ 2,171,458	\$ -	\$ -
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	-	-

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Contributions and grants receivable, gross	\$ 7,469,277	\$ 14,367,349
Less unamortized discount	<u>(182,329)</u>	<u>(266,894)</u>
Contributions and grants receivable, net	<u>\$ 7,286,948</u>	<u>\$ 14,100,455</u>
Contributions and grants receivable expected to be collected in:		
Less than one year	\$ 1,759,668	\$ 5,136,566
One to five years	5,061,296	8,507,289
Greater than five years	<u>465,984</u>	<u>456,600</u>
	<u>\$ 7,286,948</u>	<u>\$ 14,100,455</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, 2016 and 2015 using a discount rate of 1.02% and 0.90%, respectively. Estimated future cash flows to be received in five to six years were discounted at June 30, 2016 and 2015 using a discount rate of 1.53% and 1.64%, respectively. Estimated future cash flows to be received in seven to nine years were discounted at June 30, 2016 using a discount rate of 1.89%. Estimated future cash flows expected to be received after ten years were discounted at June 30, 2016 using a discount rate of 2.14%.

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, 2016.

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>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Clinician Scholar Educator Award	\$ 300,000	\$ 180,000	\$ 60,000	\$ 540,000
Rheumatology Investigator Award	1,250,000	750,000	375,000	2,375,000
Rheumatology Scientist Development Award	1,987,500	2,025,000	900,000	4,912,500
Bridge Funding Awards	412,500	75,000	-	487,500
Targeted Research Grants	4,425,000	1,800,000	-	6,225,000
Fellowship Training Award	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
	<u>\$ 8,975,000</u>	<u>\$ 4,830,000</u>	<u>\$ 1,335,000</u>	<u>\$15,140,000</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 \$2,299,645 and \$2,128,389 in 2016 and 2015, respectively, and are included in management fees in the accompanying statements of functional expenses.

Included in net accounts payable at June 30, 2016 and 2015 is \$329,294 and \$755,608 due to the College, respectively.

Included in prepaid expenses and other assets at June 30, 2016 and 2015 is \$1,645 and \$31,213 due from the College, respectively.

8. Major Contributors and Campaign Fund Raising

Foundation contributions from the top five donors amounted to approximately 79% of contributions for fiscal years 2016 and 2015. The related gross contributions receivable from these donors at June 30, 2016 and 2015 were approximately \$100,000 and \$1,008,000, 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 \$3,465,882 and \$2,651,217 in contributions and commitments for the “Journey to Cure” campaign during 2016 and 2015, respectively, recorded within gifts and grants. Total gross contribution receivables related to this campaign were \$7,469,277 and \$14,367,349 as of June 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Time Restrictions	\$ 4,441,035	\$ 5,465,264
Disease Targeted Research	1,760,260	3,826,340
Journey to Cure Campaign	2,200,000	2,205,000
Rheumatology Fellowship Training Awards	750,000	750,000
Fellows Education Fund	305,416	426,719
Pediatric Visiting Professor Program	30,239	39,750
Paula Demerieux Fellowship Training Award	20,000	25,041
Lawren H Daltroy Fellowship	-	230
Geriatric Medicine Career Development Award	-	12,500
Engleman Resident Research Preceptorship	15,000	11,636
Memorial Lectureships	12,565	13,852
Clinician Scholar Educator Award	36,000	42,250
Marshall Schiff Memorial Research Award	3,000	5,000
	<u>\$ 9,573,515</u>	<u>\$ 12,823,582</u>

Rheumatology Research Foundation
Notes to Financial Statements

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Time Restrictions	\$ 9,861,519	\$ 14,061,362
Journey to Cure Campaign	2,240,309	4,439,509
Rheumatology Fellowship Training Awards	1,050,001	1,168,875
Gaylis Community Practice Award	905,401	898,659
Pediatric Visiting Professor Program	876,444	931,334
Fellows Education Fund	394,584	535,375
Clinician Scholar Educator Award	237,000	-
Memorial Lectureships	163,612	182,596
Lawren H Daltroy Fellowship	141,273	145,185
Engleman Resident Research Preceptorship	138,510	159,782
Paula Demerieux Fellowship Training Award	87,523	113,299
Marshall Schiff Memorial Research Award	68,198	73,540
Malawista Endowment in Academic Rheumatology	50,567	50,866
Disease Targeted Research	<u>-</u>	<u>1,760,650</u>
	<u>\$ 16,214,941</u>	<u>\$ 24,521,032</u>

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>2016</u>	<u>2015</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	997,122	994,290
Memorial Lectureships	<u>334,512</u>	<u>334,512</u>
	<u>\$ 3,302,917</u>	<u>\$ 3,300,085</u>

**Rheumatology Research Foundation
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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, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Donor restricted endowment funds	\$ 4,646,931	\$ 1,526,326	\$ 3,302,917	\$ 9,476,174
Board designated funds – General Endowment	<u>24,875,816</u>	<u>-</u>	<u>-</u>	<u>24,875,816</u>
Total Funds	<u>\$ 29,522,747</u>	<u>\$ 1,526,326</u>	<u>\$ 3,302,917</u>	<u>\$ 34,351,990</u>

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>

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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, 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>
Investment return:				
Investment income	789,192	125,720	-	914,912
Net appreciation (realized and unrealized)	<u>(1,153,329)</u>	<u>(175,238)</u>	<u>-</u>	<u>(1,328,567)</u>
Total investment return	(364,137)	(49,518)	-	(413,655)
Appropriation of endowment assets for expenditure	(1,546,250)	(80,759)	-	(1,627,009)
Other charges:				
Discount on receivables	-	-	2,832	2,832
Other deletions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other charges	<u>-</u>	<u>-</u>	<u>2,832</u>	<u>2,832</u>
Endowment net assets, June 30, 2016	<u>\$ 29,522,747</u>	<u>\$ 1,526,326</u>	<u>\$ 3,302,917</u>	<u>\$ 34,351,990</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, 2016 or 2015.

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 \$5,000,000 plus interest at the 30 day LIBOR rate (0.45% at June 30, 2016) plus 2.25%. The line of credit expires on May 31, 2017. No amounts were drawn on the line in 2015. During 2016, the Foundation drew down \$1,500,000. Subsequent to year end, the Foundation drew down an additional \$2,500,000.