

Rheumatology Research Foundation

Financial Statements
Years Ended June 30, 2019 and 2018

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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, 2019 and 2018 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.

Change in Accounting Principles

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, the Foundation adopted Accounting Standard Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

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, 2019 and 2018, 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, Georgia
November 14, 2019**

Rheumatology Research Foundation
Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Assets:		
Cash and cash equivalents	\$ 8,103,460	\$ 4,663,232
Investments	42,964,711	42,271,093
Contributions and grants receivable, net	22,045,218	24,480,794
Prepaid expenses and other assets	71,541	41,212
Property and equipment, less accumulated depreciation of \$168,056 and \$215,476 in 2019 and 2018, respectively	<u>89,255</u>	<u>133,710</u>
Total assets	<u>\$ 73,274,185</u>	<u>\$ 71,590,041</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	<u>\$ 753,206</u>	<u>\$ 759,595</u>
Total liabilities	753,206	759,595
Net assets:		
With donor restrictions	28,524,639	31,236,101
Without donor restrictions:		
Designated by board for education and research awards	32,219,945	32,070,852
Other	<u>11,776,395</u>	<u>7,523,493</u>
Total net assets	<u>72,520,979</u>	<u>70,830,446</u>
Total liabilities and net assets	<u>\$ 73,274,185</u>	<u>\$ 71,590,041</u>

Rheumatology Research Foundation
Statements of Activities
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in net assets without donor restrictions:		
Revenue:		
Gifts and grants	\$ 2,829,323	\$ 1,884,767
Investment and interest income	818,806	783,590
Net realized and unrealized gains on investments	1,090,669	1,558,964
Miscellaneous income	2,347	3,332
Net assets released from restriction	<u>11,919,277</u>	<u>12,542,440</u>
Total unrestricted revenues	<u>16,660,422</u>	<u>16,773,093</u>
Expenses:		
Program services:		
Research	6,718,365	7,916,729
Education	2,904,307	2,553,350
Lectureship	248,896	307,479
Impact	<u>173,992</u>	<u>-</u>
Total program services	<u>10,045,560</u>	<u>10,777,558</u>
Support services:		
Administrative	412,136	480,430
Fundraising	<u>1,800,731</u>	<u>2,077,177</u>
Total support services	<u>2,212,867</u>	<u>2,557,607</u>
Total expenses	<u>12,258,427</u>	<u>13,335,165</u>
Change in net assets without donor restrictions	<u>4,401,995</u>	<u>3,437,928</u>
Changes in net assets with donor restrictions:		
Gifts and grants	8,873,920	25,636,910
Investment and interest income	142,468	125,000
Net realized and unrealized gains on investments	191,427	230,798
Net assets released from restriction	<u>(11,919,277)</u>	<u>(12,542,440)</u>
Change in net assets with donor restrictions	<u>(2,711,462)</u>	<u>13,450,268</u>
Change in net assets	1,690,533	16,888,196
Net assets at beginning of year	<u>70,830,446</u>	<u>53,942,250</u>
Net assets at end of year	<u>\$ 72,520,979</u>	<u>\$ 70,830,446</u>

See accompanying notes.

**Rheumatology Research Foundation
Statement of Functional Expenses
Year Ended June 30, 2019**

	<u>Program Services</u>				<u>Support Services</u>		<u>Total</u>	
	<u>Research</u>	<u>Education</u>	<u>Lectureship</u>	<u>Impact</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>2019</u>	<u>2018 (Memo only)</u>
Awards	\$ 5,838,922	\$ 2,385,002	\$ 16,750	\$ -	\$ -	\$ -	\$ 8,240,674	\$ 9,182,937
Professional fees	173,094	77,141	21,927	5,088	77,698	308,959	663,907	778,804
Management fees	404,010	300,879	189,865	158,601	226,354	1,057,866	2,337,575	2,454,079
Printing	8,258	564	564	-	949	15,536	25,871	37,783
Travel	149,606	98,211	10,281	9,429	41,659	154,626	463,812	457,571
Meetings/conferences	119,737	30,947	990	-	16,175	175,763	343,612	273,524
Postage	2,752	514	26	758	2,706	12,559	19,315	10,497
Supplies	3,873	1,652	475	-	1,731	5,917	13,648	13,357
Depreciation expense	6,543	6,543	6,543	-	9,099	6,543	35,271	39,745
Staff education	7,296	1,154	-	-	3,136	10,416	22,002	12,943
Equipment rental	1,430	1,430	1,430	-	1,430	32,116	37,836	39,724
Telephone	2,084	270	45	116	2,682	11,337	16,534	17,939
Interest	-	-	-	-	-	-	-	(247)
Bad debt write-off	-	-	-	-	-	8,975	8,975	-
Miscellaneous expenses	760	-	-	-	28,517	118	29,395	16,509
	<u>\$ 6,718,365</u>	<u>\$ 2,904,307</u>	<u>\$ 248,896</u>	<u>\$ 173,992</u>	<u>\$ 412,136</u>	<u>\$ 1,800,731</u>	<u>\$ 12,258,427</u>	<u>\$ 13,335,165</u>

**Rheumatology Research Foundation
Statement of Functional Expenses
Year Ended June 30, 2018**

	Program Services				Support Services		Total	
	Research	Education	Lectureship	Impact	Administrative	Fundraising	2018	2017 (Memo only)
Awards	\$ 7,135,855	\$ 2,030,332	\$ 16,750	\$ -	\$ -	\$ -	\$ 9,182,937	\$ 9,377,217
Professional fees	103,554	75,516	45,768	-	139,789	414,177	778,804	1,109,111
Management fees	437,069	331,926	207,140	-	208,425	1,269,519	2,454,079	2,101,627
Printing	8,087	3,059	748	-	842	25,047	37,783	42,610
Travel	112,503	79,443	18,649	-	46,054	200,922	457,571	368,029
Meetings/conferences	101,067	22,941	9,941	-	18,540	121,035	273,524	294,086
Postage	2,209	382	67	-	1,290	6,549	10,497	19,421
Supplies	1,894	1,497	431	-	3,737	5,798	13,357	18,417
Depreciation expense	7,949	7,949	7,949	-	7,949	7,949	39,745	38,695
Staff education	6,444	-	-	-	5,199	1,300	12,943	10,123
Equipment rental	-	-	-	-	30,506	9,218	39,724	24,875
Telephone	98	305	36	-	4,121	13,379	17,939	11,991
Interest	-	-	-	-	(247)	-	(247)	105,878
Miscellaneous expenses	-	-	-	-	14,225	2,284	16,509	35,273
	<u>\$ 7,916,729</u>	<u>\$ 2,553,350</u>	<u>\$ 307,479</u>	<u>\$ -</u>	<u>\$ 480,430</u>	<u>\$ 2,077,177</u>	<u>\$ 13,335,165</u>	<u>\$ 13,557,353</u>

Rheumatology Research Foundation
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,690,533	\$ 16,888,196
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Loss on disposal of assests	9,184	-
Depreciation	35,271	39,745
Net realized and unrealized gains on investments	(1,282,096)	(1,789,762)
Change in assets and liabilities:		
Contributions and grants receivable, net	2,435,576	(15,413,682)
Prepaid expenses	(30,329)	(3,973)
Accounts payable	(6,389)	116,980
	<u>2,851,750</u>	<u>(162,496)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchases of investments	(35,010,040)	(42,418,643)
Proceeds from sale of investments	35,598,518	42,729,691
	<u>588,478</u>	<u>311,048</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	3,440,228	148,552
Cash and cash equivalents at beginning of year	<u>4,663,232</u>	<u>4,514,680</u>
Cash and cash equivalents at end of year	<u>\$ 8,103,460</u>	<u>\$ 4,663,232</u>

See accompanying notes.

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 restrictions.

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.

Rheumatology Research Foundation Notes to Financial Statements

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.

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

Reclassifications

Certain reclassifications have been made to the June 30, 2018 financial statements to conform to the June 30, 2019 presentation. These classifications had no effect on the financial position, results of operations, or cash flows of the Foundation.

Rheumatology Research Foundation
Notes to Financial Statements

Adoption of New Accounting Standards Updates

During the year ended June 30, 2019, the Foundation adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Among other things, the ASU requires changes in the presentation of net assets (retrospectively applied) and expanded disclosures regarding liquidity (prospectively applied – see Note 12). As such, amounts previously reported at June 30, 2018 as unrestricted net assets have been reclassified as net assets without donor restrictions, and amounts previously reported at June 30, 2018 as temporarily restricted net assets or permanently restricted net assets have been reclassified as net assets with donor restrictions. These reclassifications had no impact on the total net assets or total changes in net assets in the accompanying financial statements.

Subsequent events

The Foundation evaluated the effect subsequent events would have on the financial statements from July 1, 2019 through November 14, 2019, 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:

	2019		2018	
	Cost	Fair value	Cost	Fair value
Cash and equivalents	\$ 2,584,155	\$ 2,584,155	\$ 2,323,949	\$ 2,323,949
Equity securities	9,807,520	12,334,834	5,558,853	7,770,688
Equity funds	12,336,393	13,873,071	16,913,025	18,857,842
Bond mutual funds	4,823,305	4,911,346	4,664,775	4,597,010
Mortgage-backed securities	3,004,901	2,976,484	89,355	62,121
Corporate bonds	4,501,877	4,587,969	5,304,879	5,060,687
Foreign government bonds	204,440	194,776	270,154	253,793
U.S. Treasury notes	1,476,322	1,502,076	3,341,598	3,345,003
Total	<u>\$ 38,738,913</u>	<u>\$ 42,964,711</u>	<u>\$ 38,466,588</u>	<u>\$ 42,271,093</u>

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

The Level 2 investment securities include asset-backed securities for which quoted prices are not available in active markets for identical instruments. The Foundation utilizes a third-party pricing service to determine the fair value of each of these investment securities. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics. The Foundation did not hold any Level 3 securities as of June 30, 2019 and 2018.

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

Rheumatology Research Foundation
Notes to Financial Statements

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 6/30/2019</u>	<u>Fair Value at 6/30/2018</u>	<u>Unfunded Commitments</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period (iii)</u>
Mill Creek International Absolute Return Fund (i)	\$ 2,080,789	\$ 2,095,804	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)	\$ 687,580	\$ 454,593	322,881	(ii)	(ii)
Mill Creek Private Equity Fund V (ii)	\$ 104,167	\$ -	895,833	(ii)	(ii)

- (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.

Rheumatology Research Foundation
Notes to Financial Statements

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

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial assets accounted for at fair value on a recurring basis as of June 30, 2019 and 2018.

	Fair Value at June 30, 2019	Fair Value Measurements as of June 30, 2019		
		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	\$ 2,584,155	\$ 2,584,155	\$ -	\$ -
Equity securities:				
Domestic common stock	9,730,961	9,730,961	-	-
Foreign common stock	2,603,873	2,603,873	-	-
Equity and bond mutual funds:				
Large-cap equity funds	606,672	606,672	-	-
International equity fund	5,700,646	5,700,646	-	-
Domestic equity index fund	4,693,218	4,693,218	-	-
Fixed income fund	4,911,345	4,911,345	-	-
Mortgage-backed securities	2,976,484	-	2,976,484	-
Corporate bonds	4,587,969	4,587,969	-	-
Foreign government bonds	194,776	194,776	-	-
U.S Treasury notes	<u>1,502,076</u>	<u>1,502,076</u>	<u>-</u>	<u>-</u>
Total assets in the fair value hierarchy	40,092,175	<u>\$ 37,115,691</u>	<u>\$ 2,976,484</u>	<u>\$ -</u>
Investments at NAV (a)	<u>2,872,536</u>			
Total investments at fair value	<u>\$ 42,964,711</u>			

(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, 2018	Fair value measurements as of June 30, 2018		
		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	\$ 2,323,949	\$ 2,323,949	\$ -	\$ -
Equity securities:				
Domestic common stock	5,411,758	5,411,758	-	-
Foreign common stock	2,358,930	2,358,930	-	-
Equity and bond mutual funds:				
Large-cap equity funds	593,082	593,082	-	-
International equity fund	5,940,518	5,940,518	-	-
Domestic equity index fund	9,773,845	9,773,845	-	-
Fixed income fund	4,597,010	4,597,010	-	-
Mortgage-backed securities	62,121	-	62,121	-
Corporate bonds	5,060,687	5,060,687	-	-
Foreign government bonds	253,793	253,793	-	-
U.S Treasury notes	<u>3,345,003</u>	<u>3,345,003</u>	-	-
Total assets in the fair value hierarchy	39,720,696	<u>\$ 39,658,575</u>	<u>\$ 62,121</u>	<u>\$ -</u>
Investments at NAV (a)	<u>2,550,397</u>			
Total investments at fair value	<u>\$ 42,271,093</u>			

(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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Contributions and grants receivable, gross	\$ 23,044,196	\$ 25,258,342
Less unamortized discount	<u>(998,978)</u>	<u>(777,548)</u>
Contributions and grants receivable, net	<u>\$ 22,045,218</u>	<u>\$ 24,480,794</u>
Contributions and grants receivable expected to be collected in:		
Less than one year	\$ 5,816,201	\$ 6,126,906
One to five years	16,019,058	17,951,285
Greater than five years	<u>209,959</u>	<u>402,603</u>
	<u>\$ 22,045,218</u>	<u>\$ 24,480,794</u>

Rheumatology Research Foundation Notes to Financial Statements

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, 2019 and 2018 using a discount rate of 2.63% and 1.00%, respectively. Estimated future cash flows to be received in five to six years were discounted at June 30, 2019 and 2018 using a discount rate of 2.75% and 1.91%, respectively. Estimated future cash flows to be received in seven to nine years were discounted at June 30, 2019 and 2018 using a discount rate of 2.85% and 2.16%, respectively. Estimated future cash flows expected to be received after ten years were discounted at June 30, 2019 and 2018 using a discount rate of 2.91% and 2.33%, respectively.

5. Income Taxes

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

The Foundation has evaluated its tax positions and determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2019.

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>2020</u>	<u>2021</u>	<u>Total</u>
Clinician Scholar Educator Award	\$ 360,000	\$ 180,000	\$ 540,000
Investigator Award	500,000	250,000	750,000
Future Physician Scientist Award	30,000	-	30,000
Scientist Development Award	856,321	800,000	1,656,321
Bridge Funding Award	450,000	-	450,000
Fellowship Training Award	100,000	50,000	150,000
Innovative Research Awards	<u>1,200,000</u>	<u>-</u>	<u>1,200,000</u>
	<u>\$ 3,496,321</u>	<u>\$ 1,280,000</u>	<u>\$ 4,776,321</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 \$2,337,575 and \$2,454,079 in 2019 and 2018, respectively, and are included in management fees in the accompanying statements of functional expenses.

Included in net accounts payable at June 30, 2019 and 2018 is \$581,478 and \$613,599 due to the College, respectively. Included in contributions and grants receivable, net at June 30, 2019 and 2018 is \$1,400,000 and \$2,800,000 due from the College, respectively, related to the Foundation's new campaign.

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8. Major Contributors and Campaign Fund Raising

Foundation contributions from the top five donors amounted to approximately 66% and 33% of total contributions for fiscal years 2019 and 2018, respectively. The related gross contributions receivable from these donors at June 30, 2019 and 2018 were approximately \$13,200,000 and \$16,600,000, 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 \$23,168,806 and \$20,990,968 as of June 30, 2019 and 2018, respectively.

9. 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>2019</u>	<u>2018</u>
Time Restrictions	\$ 10,933,356	\$ 11,376,797
Innovative Research	-	60,959
Fellowship Training Awards	500,000	650,000
Fellows Education Fund	350,000	350,000
Pediatric Visiting Professor Program	14,087	12,415
Paula DeMerieux Fellowship Training Award	50,041	44,311
Lawren H Daltroy Fellowship	10,820	12,000
Engleman Resident Research Preceptorship	15,000	15,000
Memorial Lectureships	21,806	14,080
Clinician Scholar Educator Award	3,000	2,000
Charles Christian Education Fund	16,192	-
Marshall Schiff Memorial Research Award	4,975	4,878
	<u>\$ 11,919,277</u>	<u>\$ 12,542,440</u>

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10. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Time Restrictions	\$ 18,077,068	\$ 20,287,893
Fellowship Training Awards	1,293,402	1,812,490
Gaylis Community Practice Award	944,373	924,893
Pediatric Visiting Professor Program	1,321,099	1,209,220
Fellows Education Fund	1,010,381	1,373,743
Memorial Lectureships	232,999	225,591
Education Funds	183,644	32,990
Lawren H Daltroy Fellowship	169,604	163,335
Engleman Resident Research Preceptorship	278,643	252,846
Paula DeMerieux Fellowship Training Award	85,668	109,611
Marshall Schiff Memorial Research Award	95,845	90,400
Malawista Endowment in Academic Rheumatology	300,314	222,490
<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 Fellowship	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
Memorial Lectureships	235,512	234,512
	<u>\$ 28,524,639</u>	<u>\$ 31,236,101</u>

11. Endowment

The Foundation's endowment consists of approximately 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.

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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, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Endowment funds	\$ 5,015,417	\$ 6,955,456	\$ 11,970,873
Board designated funds – general endowment	<u>27,080,403</u>	<u>-</u>	<u>27,080,403</u>
Total funds	<u>\$ 32,095,820</u>	<u>\$ 6,955,456</u>	<u>\$ 39,051,276</u>

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Endowment funds	\$ 4,994,945	\$ 6,738,725	\$ 11,733,670
Board designated funds – general endowment	<u>26,951,767</u>	<u>-</u>	<u>26,951,767</u>
Total funds	<u>\$ 31,946,712</u>	<u>\$ 6,738,725</u>	<u>\$ 38,685,437</u>

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Funds</u>
Endowment net assets, June 30, 2017	<u>\$ 31,411,880</u>	<u>\$ 5,524,585</u>	<u>\$ 36,936,465</u>
Investment return:			
Investment income	1,558,114	266,341	1,824,455
Net appreciation (realized and unrealized)	<u>498,449</u>	<u>89,457</u>	<u>587,906</u>
Total investment return	2,056,563	355,798	2,412,361
Appropriation of endowment assets for expenditure	(1,521,731)	(302,683)	(1,824,414)
Other charges:			
Discount on receivables	-	(63,779)	(63,779)
Other additions	<u>-</u>	<u>1,224,804</u>	<u>1,224,804</u>
Total other charges	<u>-</u>	<u>1,161,025</u>	<u>1,161,025</u>
Endowment net assets, June 30, 2018	31,946,712	6,738,725	38,685,437
Investment return:			
Investment income	702,108	143,465	845,573
Net appreciation (realized and unrealized)	<u>953,000</u>	<u>191,427</u>	<u>1,144,427</u>
Total investment return	1,655,108	334,892	1,990,000
Appropriation of endowment assets for expenditure	(1,506,000)	(116,728)	(1,622,728)
Other charges:			
Discount on receivables	-	(2,433)	(2,433)
Other additions	<u>-</u>	<u>1,000</u>	<u>1,000</u>
Total other charges	<u>-</u>	<u>(1,433)</u>	<u>(1,433)</u>
Endowment net assets, June 30, 2019	<u>\$ 32,095,820</u>	<u>\$ 6,955,456</u>	<u>\$ 39,051,276</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. In accordance with GAAP, deficiencies of this nature that are reported in net assets without restrictions were \$60,319 and \$64,369 as of June 30, 2019 and 2018, 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

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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.

12. 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, 2019:

Cash and cash equivalents	\$ 8,103,460
Contributions and grant receivables, net	<u>5,816,201</u>
Total	<u>\$ 13,919,661</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 \$32,095,820 as of June 30, 2019, these amounts could be made available if necessary.