

# Rheumatology Research Foundation

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**Financial Statements**  
Years Ended June 30, 2018 and 2017

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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, 2018 and 2017 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, 2018 and 2017, 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**  
**October 6, 2018**

**Rheumatology Research Foundation**  
**Statements of Financial Position**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Assets:		
Cash and cash equivalents	\$ 4,663,232	\$ 4,514,680
Investments	42,271,093	40,792,379
Contributions and grants receivable, net	24,480,794	9,067,112
Prepaid expenses and other assets	41,212	37,239
Property and equipment, less accumulated depreciation of \$215,476 and \$175,733 in 2018 and 2017, respectively	<u>133,710</u>	<u>173,455</u>
Total assets	<u>\$ 71,590,041</u>	<u>\$ 54,584,865</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	<u>\$ 759,595</u>	<u>\$ 642,615</u>
Total liabilities	759,595	642,615
Net assets:		
Donor restricted:		
Temporarily restricted	26,705,502	14,480,038
Permanently restricted	4,530,599	3,305,795
Unrestricted:		
Designated by board for education and research awards	32,070,852	31,529,289
Other	<u>7,523,493</u>	<u>4,627,128</u>
Total net assets	<u>70,830,446</u>	<u>53,942,250</u>
Total liabilities and net assets	<u>\$ 71,590,041</u>	<u>\$ 54,584,865</u>

**Rheumatology Research Foundation**  
**Statements of Activities**  
**Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Changes in unrestricted net assets:		
Revenue:		
Gifts and grants	\$ 1,884,767	\$ 7,899,162
Investment and interest income	783,590	830,549
Net realized and unrealized gains on investments	1,558,964	2,863,638
Miscellaneous income	3,332	6,340
Net assets released from restriction	<u>12,542,440</u>	<u>8,922,796</u>
Total unrestricted revenues	<u>16,773,093</u>	<u>20,522,485</u>
Expenses:		
Program services:		
Research	7,916,729	8,663,544
Education	2,553,350	1,967,941
Lectureship	<u>307,479</u>	<u>306,331</u>
Total program services	<u>10,777,558</u>	<u>10,937,816</u>
Support services:		
Administrative	480,430	591,634
Fundraising	<u>2,077,177</u>	<u>2,027,903</u>
Total support services	<u>2,557,607</u>	<u>2,619,537</u>
Total expenses	<u>13,335,165</u>	<u>13,557,353</u>
Change in unrestricted net assets	<u>3,437,928</u>	<u>6,965,132</u>
Changes in temporarily restricted net assets:		
Gifts and grants	24,612,106	6,659,804
Investment and interest income	125,000	121,185
Net realized and unrealized gains on investments	230,798	406,904
Net assets transferred to permanently restricted	(200,000)	-
Net assets released from restriction	<u>(12,542,440)</u>	<u>(8,922,796)</u>
Change in temporarily restricted net assets	<u>12,225,464</u>	<u>(1,734,903)</u>
Changes in permanently restricted net assets:		
Gifts and grants	1,024,804	2,878
Transfer from temporarily restricted net assets	<u>200,000</u>	<u>-</u>
Change in permanently restricted net assets	<u>1,224,804</u>	<u>2,878</u>
Change in net assets	<u>16,888,196</u>	<u>5,233,107</u>
Net assets at beginning of year	<u>53,942,250</u>	<u>48,709,143</u>
Net assets at end of year	<u>\$ 70,830,446</u>	<u>\$ 53,942,250</u>

See accompanying notes.

**Rheumatology Research Foundation  
Statement of Functional Expenses  
Years Ended June 30, 2018 and 2017**

	Program Services			Support Services		Total	
	Research	Education	Lectureship	Administrative	Fundraising	2018	2017
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>\$ 480,430</u>	<u>\$ 2,077,177</u>	<u>\$ 13,335,165</u>	<u>\$ 13,557,353</u>

**Rheumatology Research Foundation  
Statement of Functional Expenses  
Years Ended June 30, 2017 and 2016**

	Program Services			Support Services		Total	
	Research	Education	Lectureship	Administrative	Fundraising	2017	2016 (Memo only)
Awards	\$ 7,943,231	\$ 1,414,236	\$ 19,750	\$ -	\$ -	\$ 9,377,217	\$ 12,639,580
Professional fees	80,827	69,176	45,319	131,666	782,123	1,109,111	654,758
Management fees	430,482	324,075	206,379	234,768	905,923	2,101,627	2,299,645
Printing	8,187	2,078	2,078	3,256	27,011	42,610	46,965
Travel	94,569	126,382	14,937	33,744	98,397	368,029	368,501
Meetings/conferences	85,585	21,757	9,112	22,234	155,398	294,086	340,597
Postage	3,484	232	84	1,735	13,886	19,421	14,882
Supplies	2,466	2,175	841	2,757	10,178	18,417	14,313
Depreciation expense	7,739	7,739	7,739	7,739	7,739	38,695	31,535
Staff education	6,725	-	-	1,598	1,800	10,123	16,503
Equipment rental	-	-	-	7,323	17,552	24,875	14,944
Telephone	249	91	92	4,346	7,213	11,991	14,776
Interest	-	-	-	105,878	-	105,878	20,892
Bad debt write-off	-	-	-	-	-	-	35,150
Miscellaneous expenses	-	-	-	34,590	683	35,273	16,323
	<u>\$ 8,663,544</u>	<u>\$ 1,967,941</u>	<u>\$ 306,331</u>	<u>\$ 591,634</u>	<u>\$ 2,027,903</u>	<u>\$ 13,557,353</u>	<u>\$ 16,529,364</u>



**Rheumatology Research Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 16,888,196	\$ 5,233,107
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	39,745	38,695
Net realized and unrealized gains on investments	(1,789,762)	(3,270,542)
Change in assets and liabilities:		
Contributions and grants receivable, net	(15,413,682)	(1,780,165)
Prepaid expenses	(3,973)	69,841
Accounts payable	116,980	253,720
	<u>(162,496)</u>	<u>544,656</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(42,418,643)	(45,538,643)
Proceeds from sale of investments	42,729,691	47,666,162
	<u>311,048</u>	<u>2,127,519</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Proceeds from draws on line of credit	-	2,500,000
Repayment of line of credit	-	(4,000,000)
	<u>-</u>	<u>(1,500,000)</u>
Net cash used in financing activities		
Net increase in cash and cash equivalents	148,552	1,172,175
Cash and cash equivalents at beginning of year	<u>4,514,680</u>	<u>3,342,505</u>
Cash and cash equivalents at end of year	<u>\$ 4,663,232</u>	<u>\$ 4,514,680</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:

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, but the Board can change the designation at their discretion.

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 restriction.

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 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

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

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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. 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.

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

***Reclassifications***

Certain reclassifications have been made to the June 30, 2017 financial statements included here to conform to the June 30, 2018 presentation. These classifications had no effect on the financial position, results of operations, or cash flows of the Foundation.

***Subsequent events***

The Foundation evaluated the effect subsequent events would have on the financial statements from July 1, 2018 through October 6, 2018, 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:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Cash and equivalents	\$ 2,323,949	\$ 2,323,949	\$ 841,821	\$ 841,821
Equity securities	5,558,853	7,770,688	5,435,383	6,559,372
Equity funds	16,913,025	18,857,842	18,375,236	20,599,600
Bond mutual funds	4,664,775	4,597,010	3,397,489	3,334,498
Mortgage-backed securities	89,355	62,121	176,104	134,426
Corporate bonds	5,304,879	5,060,687	9,147,390	9,058,855
Foreign government bonds	270,154	253,793	270,154	263,807
U.S. Treasury notes	3,341,598	3,345,003	-	-
Total	<u>\$ 38,466,588</u>	<u>\$ 42,271,093</u>	<u>\$ 37,643,577</u>	<u>\$ 40,792,379</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, 2018 and 2017.

The Foundation's alternative investment funds are included in the equity funds line in table above and are measured at net asset value as a practical expedient for fair value and are accordingly excluded from the fair value hierarchy. These funds include ownership interests in a limited partnership that is a fund of funds. The recorded market price for the fund of funds investment is based on the net asset value of the Foundation's investment in the limited partnership. Underlying assets of these investment funds include venture capital, international and domestic private equity investments, absolute return (hedge) funds, and real estate. The fair value of funds held by the limited partnership is estimated by the individual investment manager taking into account such factors as the financial condition of each investee, economic and market conditions affecting their operations, any changes in management, the length of time since the initial investment, recent transactions involving the securities of the investee, the value of similar securities issued by companies in the same or similar businesses, and limited marketability of the portfolio. Valuations provided by the general partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions.

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

	<u>Fair Value at 6/30/2018</u>	<u>Fair Value at 6/30/2017</u>	<u>Unfunded Commitments</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period (iv)</u>
Mill Creek International Absolute Return Fund (i)	\$ 2,095,804	\$ 3,542,127	None	Initial 2 year lock-up period; period has lapsed	90 days' notice prior to last day of each 4 quarter period
Mill Creek International Strategic Return Fund (ii)	\$ -	\$ 1,139,282	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 (iii)	\$ 454,593	\$ -	572,711	(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 International Absolute Strategic Fund consists of 17 underlying funds. The fund's investment objectives are to earn equity-like returns through investments in the underlying 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) 20% 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.
- (iii) 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.
- (iv) 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, 2018 and 2017.

	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.

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

	Fair Value at June 30, 2017	Fair value measurements as of June 30, 2017		
		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	\$ 841,821	\$ 841,821	\$ -	\$ -
Equity securities:				
Domestic common stock	4,255,449	4,255,449	-	-
Foreign common stock	2,303,923	2,303,923	-	-
Equity and bond mutual funds:				
Large-cap equity funds	546,549	546,549	-	-
International equity fund	6,432,371	6,432,371	-	-
Domestic equity index fund	8,939,271	8,939,271	-	-
Fixed income fund	3,334,498	3,334,498	-	-
Mortgage-backed securities	134,426	-	134,426	-
Corporate bonds	9,058,855	9,058,855	-	-
Foreign government bonds	263,807	263,807	-	-
U.S Treasury notes	-	-	-	-
Total assets in the fair value hierarchy	36,110,970	<u>\$ 35,976,544</u>	<u>\$ 134,426</u>	<u>\$ -</u>
Investments at NAV (a)	<u>4,681,409</u>			
Total investments at fair value	<u>\$ 40,792,379</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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Contributions and grants receivable, gross	\$ 25,258,342	\$ 9,367,762
Less unamortized discount	<u>(777,548)</u>	<u>(300,650)</u>
Contributions and grants receivable, net	<u>\$ 24,480,794</u>	<u>\$ 9,067,112</u>
Contributions and grants receivable expected to be collected in:		
Less than one year	\$ 6,126,906	\$ 1,960,534
One to five years	17,951,285	6,761,607
Greater than five years	<u>402,603</u>	<u>344,971</u>
	<u>\$ 24,480,794</u>	<u>\$ 9,067,112</u>

## Rheumatology Research Foundation Notes to Financial Statements

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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, 2018 and 2017 using a discount rate of 1.00% and 1.00%, respectively. Estimated future cash flows to be received in five to six years were discounted at June 30, 2018 and 2017 using a discount rate of 1.91% and 1.33%, respectively. Estimated future cash flows to be received in seven to nine years were discounted at June 30, 2018 and 2017 using a discount rate of 2.16% and 1.63%, respectively. Estimated future cash flows expected to be received after ten years were discounted at June 30, 2018 and 2017 using a discount rate of 2.33% and 1.84%, 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, 2018.

### 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>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
Clinician Scholar Educator Award	\$ 360,000	\$ 300,000	\$ 179,705	\$ 839,705
Investigator Award	800,000	625,000	250,000	1,675,000
Future Physician Scientist Award	30,000	30,000	-	60,000
Scientist Development Award	1,300,313	1,200,000	800,000	3,300,313
Bridge Funding Award	250,000	-	-	250,000
Innovative Research Award	3,391,092	1,400,000	-	4,791,092
Fellowship Training Award	<u>100,000</u>	<u>100,000</u>	<u>50,000</u>	<u>250,000</u>
	<u>\$ 6,231,405</u>	<u>\$ 3,655,000</u>	<u>\$ 1,279,705</u>	<u>\$11,166,110</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 \$2,454,080 and \$2,101,627 in 2018 and 2017, respectively, and are included in management fees in the accompanying statements of functional expenses.

Included in net accounts payable at June 30, 2018 and 2017 is \$613,599 and \$509,795 due to the College, respectively.



**Rheumatology Research Foundation  
Notes to Financial Statements**

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Included in prepaid expenses and other assets at June 30, 2018 and 2017 is \$0 and \$2,367 due from the College, respectively.

Included in contributions and grants receivable, net at June 30, 2018 and 2017 is \$2,800,000 due from the College related to the Foundations new campaign.

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

Foundation contributions from the top five donors amounted to approximately 33% and 73% of total contributions for fiscal years 2018 and 2017, respectively. The related gross contributions receivable from these donors at June 30, 2018 and 2017 were approximately \$16,600,000 and \$5,350,000, respectively.

In November 2012, the Foundation began active fundraising for a 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. Total gross contribution receivables related to this campaign were \$3,167,373 and \$3,044,062 as of June 30, 2018 and 2017, respectively. The Foundation's five year \$60 million "Journey to Cure" campaign concluded December 31, 2016, over goal.

In January 2017, the Foundation began active planning and fundraising for the silent phase of Leading Boldly: Transforming Rheumatology, a new multi-year campaign, with a goal to raise \$75 million, of which an estimated 25% would be allocated to support programmatic funding objectives to increase patient access to care, by recruiting medical students and residents into the field of rheumatology and health professionals in offices treating patients, and an estimated 75% allocated to accelerate discovery, which includes investing in high-risk, high-reward innovative research in diagnosing, treating and curing rheumatic disease. Total gross contribution receivables related to this campaign were \$20,990,968 and \$6,323,700 as of June 30, 2018 and 2017, 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>2018</u>	<u>2017</u>
Time Restrictions	\$ 11,376,797	\$ 7,104,587
Innovative Research	60,959	25,000
Fellowship Training Awards	650,000	1,050,001
Fellows Education Fund	350,000	394,584
Pediatric Visiting Professor Program	12,415	17,199
Paula Demerieux Fellowship Training Award	44,311	12,041
Lawren H Daltroy Fellowship	12,000	24,000
Engleman Resident Research Preceptorship	15,000	15,000
Memorial Lectureships	14,080	12,707
Clinician Scholar Educator Award	2,000	238,000
Investigator Awards	-	25,000
Marshall Schiff Memorial Research Award	4,878	4,677
	<u>\$ 12,542,440</u>	<u>\$ 8,922,796</u>

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**10. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2018 and 2017 are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Time Restrictions	\$ 20,287,893	\$ 8,862,286
Journey to Cure Campaign	-	34,959
Fellowship Training Awards	1,812,490	2,434,334
Gaylis Community Practice Award	924,893	929,864
Pediatric Visiting Professor Program	1,209,220	1,077,208
Fellows Education Fund	1,373,743	-
Memorial Lectureships	225,591	202,867
Education Funds	32,990	-
Lawren H Daltroy Fellowship	163,335	151,858
Engleman Resident Research Preceptorship	252,846	423,213
Paula Demerieux Fellowship Training Award	109,611	122,814
Marshall Schiff Memorial Research Award	90,400	82,417
Malawista Endowment in Academic Rheumatology	222,490	158,218
	<u>\$ 26,705,502</u>	<u>\$ 14,480,038</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>2018</u>	<u>2017</u>
Permanently restricted net assets are restricted to:		
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	300,000
Malawista Endowment in Academic Rheumatology	1,024,804	1,000,000
Nelson Endowment in Pediatric Rheumatology	1,000,000	-
Marshall Schiff Memorial Research Award	100,000	100,000
Memorial Lectureships	234,512	234,512
	<u>\$ 4,530,599</u>	<u>\$ 3,305,795</u>

**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.

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

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***Interpretation of relevant law***

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. 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, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Endowment funds	\$ 4,994,945	\$ 2,208,126	\$ 4,530,599	\$ 11,733,670
Board designated funds – general endowment	<u>26,951,767</u>	<u>-</u>	<u>-</u>	<u>26,951,767</u>
Total funds	<u>\$ 31,946,712</u>	<u>\$ 2,208,126</u>	<u>\$ 4,530,599</u>	<u>\$ 38,685,437</u>

Endowment net asset composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Endowment funds	\$ 4,915,987	\$ 2,218,790	\$ 3,305,795	\$ 10,440,572
Board designated funds – general endowment	<u>26,495,893</u>	<u>-</u>	<u>-</u>	<u>26,495,893</u>
Total funds	<u>\$ 31,411,880</u>	<u>\$ 2,218,790</u>	<u>\$ 3,305,795</u>	<u>\$ 36,936,465</u>

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
<b>Endowment net assets, June 30, 2016</b>	<u>\$ 29,522,747</u>	<u>\$ 1,526,326</u>	<u>\$ 3,302,917</u>	<u>\$ 34,351,990</u>
Investment return:				
Investment income	753,966	112,440	-	886,406
Net depreciation (realized and unrealized)	<u>2,532,767</u>	<u>415,647</u>	<u>-</u>	<u>2,948,414</u>
Total investment return	3,286,733	528,087	-	3,814,820
Appropriation of endowment assets for expenditure	(1,397,600)	(85,623)	-	(1,483,223)
Other charges:				
Discount on receivables	-	-	2,878	2,878
Other additions	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Total other charges	<u>-</u>	<u>250,000</u>	<u>2,878</u>	<u>252,878</u>
<b>Endowment net assets, June 30, 2017</b>	31,411,880	2,218,790	3,305,795	36,936,465
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>-</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>-</u>	<u>1,224,804</u>	<u>1,224,804</u>
Total other charges	<u>-</u>	<u>(63,779)</u>	<u>1,224,804</u>	<u>1,161,025</u>
<b>Endowment net assets, June 30, 2018</b>	<u>\$ 31,946,712</u>	<u>\$ 2,208,126</u>	<u>\$ 4,530,599</u>	<u>\$ 38,685,437</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 unrestricted net assets were \$64,369 and \$0 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently 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 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.