

# Rheumatology Research Foundation

---

**Financial Statements**  
Years Ended June 30, 2017 and 2016

## **Table of Contents**

	<u>Page</u>
Independent Auditors' Report.....	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities .....	4
Statements of Functional Expenses .....	5
Statements of Cash Flows .....	7
Notes to Financial Statements .....	8

## **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, 2017 and 2016 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, 2017 and 2016, 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 7, 2017**

**Rheumatology Research Foundation**  
**Statements of Financial Position**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 4,514,680	\$ 3,342,505
Investments	40,792,379	39,649,355
Contributions and grants receivable, net	9,067,112	7,286,948
Prepaid expenses and other assets	37,239	107,080
Property and equipment, less accumulated depreciation of \$175,733 and \$137,038 in 2017 and 2016, respectively	<u>173,455</u>	<u>212,150</u>
Total assets	<u>\$ 54,584,865</u>	<u>\$ 50,598,038</u>
Liabilities:		
Accounts payable	\$ 642,615	\$ 388,895
Line of credit payable	<u>-</u>	<u>1,500,000</u>
Total liabilities	642,615	1,888,895
Net assets:		
Donor restricted:		
Temporarily restricted	14,480,038	16,214,941
Permanently restricted	3,305,795	3,302,917
Unrestricted:		
Designated by board for education and research awards	31,529,289	29,602,155
Other	<u>4,627,128</u>	<u>(410,870)</u>
Total net assets	<u>53,942,250</u>	<u>48,709,143</u>
Total liabilities and net assets	<u>\$ 54,584,865</u>	<u>\$ 50,598,038</u>

**Rheumatology Research Foundation**  
**Statements of Activities**  
**Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Changes in unrestricted net assets:		
Revenue:		
Gifts and grants	\$ 7,905,502	\$ 2,234,615
Investment and interest income	830,549	834,909
Net realized and unrealized gains (losses) on investments	2,863,638	(1,315,828)
Net assets released from restriction	8,922,796	9,573,515
	<u>20,522,485</u>	<u>11,327,211</u>
Expenses:		
Program services:		
Research	8,663,544	11,041,254
Education	1,967,941	2,907,687
Lectureship	306,331	301,338
	<u>10,937,816</u>	<u>14,250,279</u>
Support services:		
Administrative	591,634	542,147
Fundraising	2,027,903	1,736,938
	<u>2,619,537</u>	<u>2,279,085</u>
Total expenses	<u>13,557,353</u>	<u>16,529,364</u>
Change in unrestricted net assets	<u>6,965,132</u>	<u>(5,202,153)</u>
Changes in temporarily restricted net assets:		
Gifts and grants	6,659,804	1,317,332
Investment and interest income	121,185	108,007
Net realized and unrealized gains (losses) on investments	406,904	(157,915)
Net assets released from restriction	(8,922,796)	(9,573,515)
Change in temporarily restricted net assets	<u>(1,734,903)</u>	<u>(8,306,091)</u>
Changes in permanently restricted net assets:		
Gifts and grants	<u>2,878</u>	<u>2,832</u>
Change in permanently restricted net assets	<u>2,878</u>	<u>2,832</u>
Change in net assets	5,233,107	(13,505,412)
Net assets at beginning of year	<u>48,709,143</u>	<u>62,214,555</u>
Net assets at end of year	<u>\$ 53,942,250</u>	<u>\$ 48,709,143</u>

See accompanying notes.

**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
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  
Statement of Functional Expenses  
Years Ended June 30, 2016 and 2015**

	Program Services			Support Services		Total	
	Research	Education	Lectureship	Administrative	Fundraising	2016	2015 (Memo only)
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>

See accompanying notes.



**Rheumatology Research Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,233,107	\$ (13,505,412)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	38,695	31,535
Net realized and unrealized (gains) losses on investments	(3,270,542)	1,473,743
Change in assets and liabilities:		
Contributions and grants receivable, net	(1,780,165)	6,813,507
Prepaid expenses	69,841	(54,419)
Accounts payable	253,720	(530,001)
Net cash provided by (used in) operating activities	<u>544,656</u>	<u>(5,771,047)</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(16,657)
Purchases of investments	(45,538,643)	(32,285,644)
Proceeds from sale of investments	47,666,162	34,629,645
Net cash provided by investing activities	<u>2,127,519</u>	<u>2,327,344</u>
Cash flows from financing activities:		
Proceeds from draws on line of credit	2,500,000	1,500,000
Repayment of line of credit	(4,000,000)	-
Net cash (used in) provided by financing activities	<u>(1,500,000)</u>	<u>1,500,000</u>
Net increase (decrease) in cash and cash equivalents	1,172,175	(1,943,703)
Cash and cash equivalents at beginning of year	<u>3,342,505</u>	<u>5,286,208</u>
Cash and cash equivalents at end of year	<u>\$ 4,514,680</u>	<u>\$ 3,342,505</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:

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. 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**

---

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**

***Adoption of New Accounting Standards Update***

During 2017, the Foundation adopted the Financial Accounting Standards Board Accounting Standards Update (“ASU”) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes certain disclosures and the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value (“NAV”) per share practical expedient provided by ASC 820, *Fair Value Measurement*.

***Subsequent events***

The Foundation evaluated the effect subsequent events would have on the financial statements from July 1, 2017 through October 7, 2017, which is the date the financial statements were available to be issued.

***Reclassifications***

Certain reclassifications have been made to the June 30, 2016 financial statements included here to conform to the June 30, 2017 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:

	2017		2016	
	Cost	Fair value	Cost	Fair value
Cash and equivalents	\$ 841,821	\$ 841,821	\$ 3,514,749	\$ 3,514,749
Equity securities	5,435,383	6,559,372	4,914,609	5,368,586
Equity funds	18,375,236	20,599,600	19,160,324	18,719,927
Bond mutual funds	3,397,489	3,334,498	2,633,207	2,429,248
Mortgage-backed securities	176,104	134,426	428,548	371,999
Corporate bonds	9,147,390	9,058,855	8,329,888	8,462,078
Foreign government bonds	270,154	263,807	270,154	276,930
U.S. treasury notes	-	-	505,771	505,838
Total	<b><u>\$ 37,643,577</u></b>	<b><u>\$ 40,792,379</u></b>	<b><u>\$ 39,757,250</u></b>	<b><u>\$ 39,649,355</u></b>

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, 2017 and 2016.

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

**Rheumatology Research Foundation  
Notes to Financial Statements**

equity investments, absolute return (hedge) funds, and real estate. The fair value of funds held by the limited partnership is estimated by the individual investment manager taking into account such factors as the financial condition of each investee, economic and market conditions affecting their operations, any changes in management, the length of time since the initial investment, recent transactions involving the securities of the investee, the value of similar securities issued by companies in the same or similar businesses, and limited marketability of the portfolio. Valuations provided by the general partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions.

	<u>Fair Value at 6/30/2017</u>	<u>Fair Value at 6/30/2016</u>	<u>Unfunded Commitments</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period (iii)</u>
Mill Creek International Absolute Return Fund (i)	\$ 3,542,127	\$ 3,332,504	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	\$ 1,071,433	None	Initial 2 year lock-up period; period has lapsed	90 days' notice prior to last day of each 4 quarter period

- (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) 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, 2017 and 2016.

	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) In accordance with Topic 820, 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, 2016	Fair value measurements as of June 30, 2016		
		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	\$ 3,514,749	\$ 3,514,749	\$ -	\$ -
Equity securities:				
Domestic common stock	3,486,125	3,486,125	-	-
Foreign common stock	1,882,461	1,882,461	-	-
Equity and bond mutual funds:				
Large-cap equity funds	3,933,588	3,933,588	-	-
International equity fund	5,426,850	5,426,850	-	-
Domestic equity index fund	4,955,552	4,955,552	-	-
Fixed income fund	2,429,248	2,429,248	-	-
Mortgage-backed securities	371,999	-	371,999	-
Corporate bonds	8,462,078	8,462,078	-	-
Foreign government bonds	276,930	276,930	-	-
U.S treasury notes	<u>505,838</u>	<u>505,838</u>	-	-
Total assets in the fair value hierarchy	35,245,418	<u>\$ 34,873,419</u>	<u>\$ 371,999</u>	<u>\$ -</u>
Investments at NAV (a)	<u>4,403,937</u>			
Total investments at fair value	<u>\$ 39,649,355</u>			

(a) In accordance with Topic 820, 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Contributions and grants receivable, gross	\$ 9,367,762	\$ 7,469,277
Less unamortized discount	<u>(300,650)</u>	<u>(182,329)</u>
Contributions and grants receivable, net	<u>\$ 9,067,112</u>	<u>\$ 7,286,948</u>
Contributions and grants receivable expected to be collected in:		
Less than one year	\$ 1,960,534	\$ 1,759,668
One to five years	6,761,607	5,061,296
Greater than five years	<u>344,971</u>	<u>465,984</u>
	<u>\$ 9,067,112</u>	<u>\$ 7,286,948</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, 2017 and 2016 using a discount rate of 1.00% and 1.02%, respectively. Estimated future cash flows to be received in five to six years were discounted at June 30, 2017 and 2016 using a discount rate of 1.33% and 1.53%, respectively. Estimated future cash flows to be received in seven to nine years were discounted at June 30, 2017 and 2016 using a discount rate of 1.63% and 1.89%, respectively. Estimated future cash flows expected to be received after ten years were discounted at June 30, 2017 and 2016 using a discount rate of 1.84% and 2.14%, 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, 2017.

### 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>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Clinician Scholar Educator Award	\$ 300,000	\$ 180,000	\$ 120,000	\$ 600,000
Rheumatology Investigator Award	1,125,000	562,500	375,000	2,062,500
Rheumatology Scientist Development Award	2,174,909	1,250,000	700,000	4,124,909
Bridge Funding Awards	425,000	100,000	-	525,000
Targeted Research Grants	3,800,000	2,000,000	-	5,800,000
Fellowship Training Award	<u>1,150,000</u>	<u>-</u>	<u>-</u>	<u>1,150,000</u>
	<u>\$ 8,974,909</u>	<u>\$ 4,092,500</u>	<u>\$ 1,195,000</u>	<u>\$14,262,409</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 \$2,101,627 and \$2,299,645 in 2017 and 2016, respectively, and are included in management fees in the accompanying statements of functional expenses.

Included in net accounts payable at June 30, 2017 and 2016 is \$509,795 and \$329,294 due to the College, respectively.



**Rheumatology Research Foundation  
Notes to Financial Statements**

---

Included in prepaid expenses and other assets at June 30, 2017 and 2016 is \$2,367 and \$1,645 due from the College, respectively.

Included in contributions and grants receivable, net at June 30, 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 73% and 79% of contributions for fiscal years 2017 and 2016, respectively. The related gross contributions receivable from these donors at June 30, 2017 and 2016 were approximately \$5,350,000 and \$100,000, 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 \$3,656,462 and \$3,465,882 in contributions and commitments for the “Journey to Cure” campaign during 2017 and 2016, respectively, recorded within gifts and grants. Total gross contribution receivables related to this campaign were \$3,044,062 and \$7,469,277 as of June 30, 2017 and 2016, respectively. The Foundation’s five-year \$60 million “Journey to Cure” campaign concluded December 31, 2016, over goal.

In November 2016, the Foundation began active planning and fundraising for a new silent phase of a 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, which includes improving the supply of rheumatology providers and advancing rheumatology care delivery, and an estimated 75% allocated to Accelerate Discovery, which includes investing in high-risk, high-reward innovative research, enhancing the value of rheumatology care, and exploring management approaches and therapeutics. The Foundation raised \$11,023,700 in contributions and commitments for the “Campaign for Rheumatology Research Foundation” during 2017, recorded within gifts and grants. Total gross contribution receivables related to this campaign were \$6,323,700 as of June 30, 2017.

**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>2017</u>	<u>2016</u>
Time Restrictions	\$ 4,898,937	\$ 4,441,035
Disease Targeted Research	25,000	1,760,260
Journey to Cure Campaign	2,205,650	2,200,000
Rheumatology Fellowship Training Awards	1,050,001	750,000
Fellows Education Fund	394,584	305,416
Pediatric Visiting Professor Program	17,199	30,239
Paula Demerieux Fellowship Training Award	12,041	20,000
Lawren H Daltroy Fellowship	24,000	-
Engleman Resident Research Preceptorship	15,000	15,000
Memorial Lectureships	12,707	12,565
Clinician Scholar Educator Award	238,000	36,000
Investigator Awards	25,000	-
Marshall Schiff Memorial Research Award	4,677	3,000
	<u>\$ 8,922,796</u>	<u>\$ 9,573,515</u>

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

---

**10. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2017 and 2016 are restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Time Restrictions	\$ 8,862,286	\$ 9,861,519
Journey to Cure Campaign	34,959	2,240,309
Rheumatology Fellowship Training Awards	2,434,334	1,050,001
Gaylis Community Practice Award	929,864	905,401
Pediatric Visiting Professor Program	1,077,208	876,444
Fellows Education Fund	-	394,584
Clinician Scholar Educator Award	-	237,000
Memorial Lectureships	202,867	163,612
Lawren H Daltroy Fellowship	151,858	141,273
Engleman Resident Research Preceptorship	423,213	138,510
Paula Demerieux Fellowship Training Award	122,814	87,523
Marshall Schiff Memorial Research Award	82,417	68,198
Malawista Endowment in Academic Rheumatology	158,218	50,567
	<u>\$ 14,480,038</u>	<u>\$ 16,214,941</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>2017</u>	<u>2016</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	300,000	300,000
Malawista Endowment in Academic Rheumatology	1,000,000	997,122
Memorial Lectureships	334,512	334,512
	<u>\$ 3,305,795</u>	<u>\$ 3,302,917</u>

**12. Endowment**

The Foundation's endowment consists of 12 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**

***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, 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>

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>
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>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
<b>Endowment net assets, June 30, 2015</b>	<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 depreciation (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 additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other charges	<u>-</u>	<u>-</u>	<u>2,832</u>	<u>2,832</u>
<b>Endowment net assets, June 30, 2016</b>	29,522,747	1,526,326	3,302,917	34,351,990
Investment return:				
Investment income	753,966	112,440	-	866,406
Net appreciation (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>	<u>\$ 31,411,880</u>	<u>\$ 2,218,790</u>	<u>\$ 3,305,795</u>	<u>\$ 36,936,465</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, 2017 or 2016.

***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**

At June 30, 2016, the Foundation had 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 expired on May 31, 2017. During 2016, the Foundation drew down \$1,500,000.

During 2017, the Foundation renewed the revolving line of credit with a maximum loan amount of \$5,000,000 plus interest at the 30 day LIBOR rate (1.1714% at June 30, 2017) plus 1.80%. The line of credit expires on November 18, 2018. During 2017, the Foundation drew down \$2,500,000. Prior to June 30, 2017, the Foundation paid down the full \$4,000,000 that was drawn from the line of credit.