

**AMERICAN COLLEGE OF
RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

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June 30, 2010 and 2009

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Independent Auditors' Report

The Board of Directors
American College of Rheumatology Research
and Education Foundation:

We have audited the accompanying statements of financial position of American College of Rheumatology Research and Education Foundation (the "Foundation") as of June 30, 2010 and 2009 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at June 30, 2010 and 2009, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes PLLC

Atlanta, Georgia
October 11, 2010

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Statements of Financial Position

June 30, 2010 and 2009

	2010	2009
Assets:		
Cash and cash equivalents	\$ 7,106,155	\$ 11,306,046
Investments	30,715,164	27,370,552
Contributions and grants receivable, net	12,892,191	12,615,065
Prepaid expenses and other assets	35,860	734
Property and equipment, less accumulated depreciation of \$26,609 and \$20,601 in 2010 and 2009, respectively	<u>87,405</u>	<u>83,322</u>
Total assets	<u>\$ 50,836,775</u>	<u>\$ 51,375,719</u>
Liabilities:		
Accounts payable	\$ 139,470	\$ 233,149
Net assets:		
Donor restricted:		
Temporarily restricted	25,297,392	27,546,843
Permanently restricted	2,305,795	2,305,795
Other:		
Designated by board for education and research awards	16,004,527	12,889,379
Unrestricted	<u>7,089,591</u>	<u>8,400,553</u>
Total net assets	<u>50,697,305</u>	<u>51,142,570</u>
Total liabilities and net assets	<u>\$ 50,836,775</u>	<u>\$ 51,375,719</u>

See accompanying notes to financial statements.

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Statements of Activities

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Changes in unrestricted net assets:		
Revenue:		
Gifts and grants	\$ 601,489	\$ 1,000,552
Investment and interest income	433,793	816,039
Net realized and unrealized gains (losses) on investments	2,477,020	(4,958,060)
Miscellaneous income	21	122
Net assets released from restriction	10,749,065	11,024,436
Net assets transferred to permanently restricted	<u>-</u>	<u>(84,249)</u>
Total unrestricted revenues	<u>14,261,388</u>	<u>7,798,840</u>
Expenses:		
Program services - research and education	<u>11,556,972</u>	<u>11,253,033</u>
Support services:		
Administrative	246,849	378,754
Fund-raising	<u>653,381</u>	<u>710,458</u>
Total support services	<u>900,230</u>	<u>1,089,212</u>
Total expenses	<u>12,457,202</u>	<u>12,342,245</u>
Change in unrestricted net assets	<u>1,804,186</u>	<u>(4,543,405)</u>
Changes in temporarily restricted net assets:		
Gifts and grants	6,752,118	8,632,791
Contribution from American College of Rheumatology	1,000,000	1,000,000
Investment and interest income	178,931	246,160
Net realized and unrealized gains (losses) on investments	568,565	(1,485,656)
Net assets released from restriction	<u>(10,749,065)</u>	<u>(11,045,187)</u>
Change in temporarily restricted net assets	<u>(2,249,451)</u>	<u>(2,651,892)</u>
Changes in permanently restricted net assets:		
Gifts and grants	-	247,500
Transfer from unrestricted net assets	-	84,249
Net assets reclassified to permanently restricted	<u>-</u>	<u>20,751</u>
Change in permanently restricted net assets	<u>-</u>	<u>352,500</u>
Change in net assets	<u>(445,265)</u>	<u>(6,842,797)</u>
Net assets at beginning of year	<u>51,142,570</u>	<u>57,985,367</u>
Net assets at end of year	<u><u>\$ 50,697,305</u></u>	<u><u>\$ 51,142,570</u></u>

See accompanying notes to financial statements.

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Statement of Functional Expenses

For the Year Ended June 30, 2010

	Program Services	Support Services		Total	
	Research and Education	Administrative	Fundraising	2010	2009
Awards	\$ 10,506,191	\$ -	\$ -	\$ 10,506,191	\$ 10,196,489
Professional fees	14,752	59,760	106,088	180,600	311,610
Management fees	695,002	92,078	301,980	1,089,060	1,038,990
Printing	42,276	13,310	55,661	111,247	111,302
Travel	184,390	22,886	76,599	283,875	368,074
Meetings/conferences	91,948	8,049	73,449	173,446	231,059
Postage	2,265	5,749	22,018	30,032	28,840
Supplies	10,332	14,682	1,871	26,885	16,276
Depreciation expense	2,621	874	874	4,369	1,636
Staff education	27	18,581	3,646	22,254	18,712
Equipment rental	6,527	-	10,799	17,326	7,942
Telephone	641	43	315	999	1,294
Miscellaneous expenses	-	10,837	81	10,918	10,021
	<u>\$ 11,556,972</u>	<u>\$ 246,849</u>	<u>\$ 653,381</u>	<u>\$ 12,457,202</u>	<u>\$ 12,342,245</u>

See accompanying notes to financial statements.

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Statement of Functional Expenses

For the Year Ended June 30, 2009

	Program Services	Support Services		Total	
	Research and Education	Administrative	Fundraising	2009	2008 (Memo only)
Awards	\$ 10,196,489	\$ -	\$ -	\$ 10,196,489	\$ 6,511,797
Professional fees	22,329	46,635	242,646	311,610	540,408
Management fees	558,598	239,041	241,351	1,038,990	859,896
Printing	56,402	8,123	46,777	111,302	121,370
Travel	272,885	27,616	67,573	368,074	240,981
Meetings/conferences	127,340	17,863	85,856	231,059	109,419
Postage	7,830	6,099	14,911	28,840	37,632
Supplies	9,251	4,658	2,367	16,276	28,809
Depreciation expense	982	327	327	1,636	3,221
Staff education	-	18,059	653	18,712	9,082
Equipment rental	463	-	7,479	7,942	7,025
Telephone	464	312	518	1,294	1,032
Miscellaneous expenses	-	10,021	-	10,021	9,528
	<u>\$ 11,253,033</u>	<u>\$ 378,754</u>	<u>\$ 710,458</u>	<u>\$ 12,342,245</u>	<u>\$ 8,480,200</u>

See accompanying notes to financial statements.

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (445,265)	\$ (6,842,797)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,369	1,636
Net realized and unrealized gains (losses) on investments	(3,045,585)	6,443,716
Change in assets and liabilities:		
Contributions and grants receivable, net	(277,126)	649,486
Prepaid expenses	(35,126)	28,775
Accounts payable	(93,679)	151,329
Net cash provided by (used in) operating activities	(3,892,412)	432,145
Cash flows from investing activities:		
Purchase of property and equipment	(8,452)	(24,947)
Purchase of investments	(18,108,527)	(26,811,144)
Proceeds from sale of investments	17,809,500	27,047,834
Net cash provided by (used in) investing activities	(307,479)	211,743
Net increase (decrease) in cash and cash equivalents	(4,199,891)	643,888
Cash and cash equivalents at beginning of year	11,306,046	10,662,158
Cash and cash equivalents at end of year	\$ 7,106,155	\$ 11,306,046

See accompanying notes to financial statements.

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

(1) Description of Organization

The American College of Rheumatology Research and Education Foundation (the “Foundation”) is an organization to improve patients’ lives 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.

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 – 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. The Board permanently restricted these funds, whereby the designated funds will be maintained in perpetuity with the income from which to be expendable for the support of research and education awards.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. When a donor-imposed or time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – 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 accounts. The Foundation believes it is not exposed to significant credit risk on cash and cash equivalents.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. These securities consist primarily of investments in United States government securities, corporate bonds, mortgage-backed securities, and equity securities. 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.

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Notes to Financial Statements, continued

(2) Summary of Significant Accounting Policies, continued

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.

Research Grants - Research grants are recorded as expense in the year for which the grants are designated and expended. The terms of research grants are from one to three years with continuation of grants subject to certain performance requirements.

Use of Estimates - Management has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Fair Value Measurements – Fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes market data or assumptions that market participants would use in pricing the asset or liability. Accounting literature establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Subsequent Events – The Foundation evaluated the effect subsequent events would have on the financial statements through October 11, 2010, 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>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Corporate bonds	\$ 5,581,870	\$ 5,407,780	\$ 5,170,055	\$ 5,085,292
U.S. treasury notes	1,732,369	1,795,568	455,632	458,089
Mortgage-backed securities	3,246,141	3,871,987	3,803,053	3,743,696
Equity funds	9,193,102	8,774,004	8,206,245	6,924,565
Common stock	10,258,622	10,454,111	11,020,523	9,832,967
Certificates of deposit	<u>412,000</u>	<u>411,714</u>	<u>1,312,791</u>	<u>1,325,943</u>
Total	\$ <u>30,424,104</u>	\$ <u>30,715,164</u>	\$ <u>29,968,299</u>	\$ <u>27,370,552</u>

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
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Notes to Financial Statements, continued

(3) Investments, continued

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. Prices for asset-backed securities are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2.

Level 3 investments include venture capital, international and domestic private equity investments, absolute return (hedge) funds, and real estate. The recorded market price for the level 3 investments 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.

There was a \$400,000 transfer out of Level 3 during 2009. There was a \$630,000 transfer in to Level 3 during 2010. There were no changes during the year ended June 30, 2010 and 2009 to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

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, 2010 and 2009. 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 valuation of fair value assets and their placement within the fair value hierarchy levels.

Assets (Liabilities) at Fair Value as of June 30, 2010

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	\$ 4,632,319	\$ -	\$ -
Certificates of deposit	411,714	-	-
Common stock	10,454,111	-	-
Equity funds	5,393,667	-	3,380,337
U.S. treasury notes	1,795,568	-	-
Corporate bonds	5,407,780	-	-
Mortgage-backed securities	-	3,871,987	-

Assets (Liabilities) at Fair Value as of June 30, 2009

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	\$ 7,323,875	\$ -	\$ -
Certificates of deposit	1,325,943	-	-
Common stock	9,832,967	-	-
Mutual funds	4,444,922	-	2,479,643
U.S. treasury notes	458,089	-	-
Corporate bonds	5,085,292	-	-
Mortgage-backed securities	-	3,743,696	-

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Notes to Financial Statements, continued

(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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Contributions and grants receivable, gross	\$ 13,057,142	\$ 12,877,895
Less unamortized discount	<u>(164,951)</u>	<u>(262,830)</u>
Contributions and grants receivable, net	<u>\$ 12,892,191</u>	<u>\$ 12,615,065</u>
Contributions and grants receivable expected to be collected in:		
Less than one year	\$ 6,806,722	\$ 5,234,964
One to five years	<u>6,085,469</u>	<u>7,380,101</u>
	<u>\$ 12,892,191</u>	<u>\$ 12,615,065</u>

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions. Estimated future cash flows to be received after one year were discounted at June 30, 2010 and 2009 using a discount rate of 1.4% and 2.1%, 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, 2010.

(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>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Clinical Scholar Educator Award	\$ 600,000	\$ 360,000	\$ 180,000	\$ 1,140,000
Clinical Investigator Fellowship Award	450,000	-	-	450,000
Rheumatology Investigator Award	750,000	750,000	375,000	1,875,000
Rheumatology Scientist Development Award	1,250,000	1,150,000	1,000,000	3,400,000
ASP/JCD Award	150,000	75,000	-	225,000
Health Professional Investigator Award	100,000	-	-	100,000
Health Professional New Investigator Award	200,000	-	-	200,000
Within Our Reach Grants	<u>5,327,429</u>	<u>2,370,220</u>	<u>1,185,612</u>	<u>8,883,261</u>
	<u>\$ 8,827,429</u>	<u>\$ 4,705,220</u>	<u>\$ 2,740,612</u>	<u>\$ 16,273,261</u>

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Notes to Financial Statements, continued

(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 \$1,089,060 and \$1,038,990 in 2010 and 2009, respectively, and are included in management fees in the accompanying statements of functional expenses. Additionally, during 2010 and 2009, the College authorized a transfer of \$1,000,000 to the Foundation to contribute to the Rheumatoid Arthritis Initiative (“Within Our Reach” Campaign).

Included in net accounts payable at June 30, 2010 and 2009 is \$104,686 and \$134,635 due to the College, respectively.

(8) Major Contributors and Campaign Fund Raising

Foundation contributions from the top five donors amounted to approximately 87% and 95% of contributions for fiscal 2010 and 2009, respectively. The related gross contributions receivable from these donors at June 30, 2010 and 2009 were approximately \$8,000,000 and \$7,875,000, respectively.

The Foundation began active fundraising in March 2006 for a national multi-year campaign to raise a minimum of \$30 million to accelerate innovative rheumatoid arthritis research. The Within Our Reach campaign represents a new peer-review grant program for the Foundation. Research areas as part of this campaign will include clinical practice, novel clinical trials, and collaborative projects. The Foundation raised \$3,907,707 and \$6,985,589 in contributions and commitments for Within Our Reach during 2010 and 2009, respectively, recorded within gifts and grants. Total gross contribution receivables related to this campaign were \$8,277,083 and \$8,263,064 as of June 30, 2010 and 2009, 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:

	2010	2009
Time restrictions	\$ 3,425,000	\$ 3,475,000
Rheumatoid Arthritis Initiative “Within Our Reach” Campaign	5,926,589	5,566,085
Rheumatology Fellowship Training Program	825,000	830,155
Physician Scientist Development Award	245,014	328,000
Clinical Investigator Fellowship Award	9,975	170,025
Arthritis Investigator Award	-	270,000
Pediatric Visiting Professor Program	25,522	8,000
Paula Demerieux Award	15,600	-
Lawren H Daltroy Fellowship	7,037	7,500
Rheumatology Development Fund	127,047	117,194
Junior Career Development Award	112,500	112,500
Lectureships	8,648	5,638
Bridge Funding Award	-	150,000
Other educational and research programs	21,133	5,090
	\$ 10,749,065	\$ 11,045,187

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
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Notes to Financial Statements, continued

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2010 and 2009 are restricted for the following purposes:

	2010	2009
Time restricted	\$ 5,483,088	\$ 5,487,499
Rheumatoid Arthritis Initiative "Within Our Reach" Campaign	12,985,993	14,893,943
Rheumatology Development Fund	4,002,452	3,684,831
Rheumatology Fellowship Training Program	1,715,705	2,540,705
Physician Scientist Development Award	150,000	398,014
Rheumatology Scientist Development Award	225,000	-
Clinical Investigator Fellowship Award	-	9,975
Pediatric Visiting Professor Program	382,004	247,013
Paula Demerieux Award	20,921	2,321
Lawren H Daltroy Fellowship	37,535	20,958
Presidential Gold Medal Award	6,653	2,213
Junior Career Development Award	78,000	112,500
Engleman Resident Research Preceptorship	51,020	18,227
Lectureships	84,021	46,010
REF/AF Bridge Funding Award	75,000	75,000
Other educational and research programs	-	7,634
	\$ 25,297,392	\$ 27,546,843

(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.

	2010	2009
Permanently restricted net assets are restricted to:		
Investment in perpetuity, the income from which is expendable to support:		
Pediatric Visiting Professor Program	\$ 1,107,000	\$ 1,107,000
Paula Demerieux Award	320,520	320,520
Lawren H. Daltroy Fellowship Fund	169,260	169,260
Presidential Gold Medal	74,503	74,503
Engleman Resident Research Preceptorship	300,000	300,000
Lectureships	334,512	334,512
	\$ 2,305,795	\$ 2,305,795

(12) Endowment

The Foundation's endowment consists of approximately 12 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds, a term endowment and funds designated by the Board of Directors to function as a general endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designed by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
AND EDUCATION FOUNDATION**

Notes to Financial Statements, continued

(12) Endowment, continued

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, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Donor restricted endowment funds	\$ 3,387	\$ 582,157	\$ 2,305,795	\$ 2,891,339
Term endowment funds	-	4,002,450	-	4,002,450
Board designated funds – General Endowment	<u>16,004,527</u>	<u>-</u>	<u>-</u>	<u>16,004,527</u>
Total Funds	<u>\$ 16,007,914</u>	<u>\$ 4,584,607</u>	<u>\$ 2,305,795</u>	<u>\$ 22,898,316</u>

Endowment net asset composition by type of fund as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Donor restricted endowment funds	\$ 12,740	\$ 336,743	\$ 2,305,795	\$ 2,655,278
Term endowment funds	-	3,684,830	-	3,684,830
Board designated funds – General Endowment	<u>12,889,379</u>	<u>-</u>	<u>-</u>	<u>12,889,379</u>
Total Funds	<u>\$ 12,902,119</u>	<u>\$ 4,021,573</u>	<u>\$ 2,305,795</u>	<u>\$ 19,229,487</u>

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
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Notes to Financial Statements, continued

(12) Endowment, continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Funds</u>
Endowment net assets, June 30, 2008	\$ 14,421,814	\$ 5,420,488	\$ 1,953,295	\$ 21,795,597
Investment return:				
Investment income	406,678	229,865	-	636,543
Net appreciation (realized and unrealized)	<u>(1,910,107)</u>	<u>(1,485,655)</u>	<u>-</u>	<u>(3,395,762)</u>
Total investment return	(1,503,429)	(1,255,790)	-	(2,759,219)
New gifts	-	-	247,500	247,500
Appropriation of endowment assets for expenditure	67,983	(143,333)	-	(75,350)
Other charges:				
Transfers to create board designated funds	-	-	-	-
Other-Engelman transfer of funds	(84,249)	(20,751)	105,000	-
Reclassifications	<u>-</u>	<u>20,959</u>	<u>-</u>	<u>20,959</u>
Total other charges	<u>(84,249)</u>	<u>208</u>	<u>105,000</u>	<u>20,959</u>
Endowment net assets, June 30, 2009	\$ 12,902,119	\$ 4,021,573	\$ 2,305,795	\$ 19,229,487
Investment return:				
Investment income	428,356	190,822	-	619,178
Net appreciation (realized and unrealized)	<u>1,186,792</u>	<u>568,548</u>	<u>-</u>	<u>1,755,340</u>
Total investment return	1,615,148	759,370	-	2,374,518
Appropriation of endowment assets for expenditure	(9,353)	(196,336)	-	(205,689)
Other charges:				
Transfers to create board designated funds	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
Total other charges	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
Endowment net assets, June 30, 2010	\$ <u>16,007,914</u>	\$ <u>4,584,607</u>	\$ <u>2,305,795</u>	\$ <u>22,898,316</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, 2010 or 2009.

**AMERICAN COLLEGE OF RHEUMATOLOGY RESEARCH
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Notes to Financial Statements, continued

(12) Endowment, continued

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 7 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 5 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 2 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(13) Line of Credit

The Foundation has a revolving line of credit with a maximum loan amount of \$1,000,000 plus interest at the 30 day LIBOR rate (0.35% at June 30, 2010) plus 3.00% that expires on October 15, 2010. No amounts were drawn on the line in 2010.