

RESOURCES FOR THE FUTURE, INC.

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

Resources for the Future, Inc.

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Audited Financial Statements	
Statements of Financial Position	3 - 4
Statements of Activities and Changes in Net Assets	5 - 6
Statements of Functional Expenses	7 - 8
Statements of Cash Flows	9 - 10
Notes to Financial Statements	11 - 28
Supplementary Information	
Independent Auditor's Report on Supplementary Information	29
Schedule of Dissertation Awards	30
Schedule of Determination of Cost Recovery Rates	31



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Independent Auditor's Report

Board of Directors
Resources for the Future, Inc.
Washington, D.C.

We have audited the accompanying financial statements of **Resources for the Future, Inc.** (the "Organization") (a nonprofit organization), which comprise the Statements of Financial Position as of September 30, 2016 and 2015, and the related Statements of Activities and Changes in Net Assets, 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 these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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.

Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Resources for the Future, Inc.** as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 3 and 4, the financial statements include investments valued at approximately \$11,977,635 (20% of net assets) at September 30, 2016, and \$13,109,559 (22% of net assets) at September 30, 2015, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, for the year ended September 30, 2016 management has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2015-07, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. Our opinion is not modified with respect to this matter.

Aronson LLC

Rockville, Maryland
February 10, 2017

<i>September 30,</i>	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 505,310	\$ 374,424
Grants and contract revenue receivable	996,202	1,274,639
Contributions receivable, current portion	2,688,983	3,024,553
Other receivables	482	3,859
Other assets	182,761	99,371
Total current assets	4,373,738	4,776,846
Contributions receivable, net of current portion	1,012,967	515,977
Investments		
Investments, at fair value	53,593,195	54,321,271
Fixed assets - net of accumulated depreciation	7,449,318	6,551,211
Assets held under charitable trust agreements	325,752	330,253
Total assets	\$ 66,754,970	\$ 66,495,558

Resources for the Future, Inc.

Statements of Financial Position

<i>September 30,</i>	2016	2015
Liabilities and Net Assets		
Current liabilities		
Tax-exempt bond financing, current portion	\$ 295,000	\$ 285,000
Grants and awards payable	19,126	61,501
Accounts payable and accrued liabilities	2,314,741	1,860,407
Postretirement benefits, current portion	27,270	51,005
Deferred revenue	43,325	274,189
Total current liabilities	2,699,462	2,532,102
Long term liabilities		
Tax-exempt bond financing, net of current portion	4,310,000	4,605,000
Postretirement benefits, net of current portion	592,045	561,811
Liabilities under split-interest agreements	193,339	200,076
Funds held for others	64,842	62,726
Total long term liabilities	5,160,226	5,429,613
Total liabilities	7,859,688	7,961,715
Net assets		
Unrestricted	47,233,605	48,089,173
Temporarily restricted	5,172,270	3,955,313
Permanently restricted	6,489,407	6,489,357
Total net assets	58,895,282	58,533,843
Total liabilities and net assets	\$ 66,754,970	\$ 66,495,558

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statement of Activities and Changes in Net Assets

<i>Year Ended September 30, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets				
Revenue				
Program grants and contracts	\$ 3,171,982	\$ 4,774,898	\$ -	\$ 7,946,880
General support and contributions	1,809,688	-	50	1,809,738
Rental income	1,645,914	-	-	1,645,914
Investment income - net of investment and custodial fees of \$451,798	1,309,504	-	-	1,309,504
Other revenue	4,247	-	-	4,247
Net assets released from restrictions	3,930,771	(3,930,771)	-	-
Total operating revenue	11,872,106	844,127	50	12,716,283
Expenses				
Research programs				
Research	9,019,125	-	-	9,019,125
Academic Relations	90,488	-	-	90,488
Communications	1,257,362	-	-	1,257,362
Other direct	46,397	-	-	46,397
Total research program expenses	10,413,372	-	-	10,413,372
Fundraising	943,986	-	-	943,986
Management and administration	2,179,247	-	-	2,179,247
1616 P Street operations and maintenance	1,351,339	-	-	1,351,339
Total functional expenses	14,887,944	-	-	14,887,944
Changes in net assets from operations	(3,015,838)	844,127	50	(2,171,661)
Non-operating revenues				
Realized and unrealized gain on investment transactions	2,160,270	372,830	-	2,533,100
Change in net assets	(855,568)	1,216,957	50	361,439
Net assets at beginning of year	48,089,173	3,955,313	6,489,357	58,533,843
Net assets at end of year	\$ 47,233,605	\$ 5,172,270	\$ 6,489,407	\$ 58,895,282

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statement of Activities and Changes in Net Assets

<i>Year Ended September 30, 2015</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets				
Revenue				
Program grants and contracts	\$ 3,672,880	\$ 4,455,800	\$ -	\$ 8,128,680
General support and contributions	1,628,481	-	5,450	1,633,931
Rental income	1,622,203	-	-	1,622,203
Investment income - net of investment and custodial fees of \$499,543	1,526,288	-	-	1,526,288
Other revenue	10,618	-	-	10,618
Net assets released from restrictions	3,137,269	(3,137,269)	-	-
Total operating revenue	11,597,739	1,318,531	5,450	12,921,720
Expenses				
Research programs				
Research	7,978,323	-	-	7,978,323
Academic Relations	130,596	-	-	130,596
Communications	1,498,777	-	-	1,498,777
Other direct	40,065	-	-	40,065
Total research program expenses	9,647,761	-	-	9,647,761
Fundraising	1,022,858	-	-	1,022,858
Management and administration	1,952,724	-	-	1,952,724
1616 P Street operations and maintenance	1,327,802	-	-	1,327,802
Total functional expenses	13,951,145	-	-	13,951,145
Changes in net assets from operations	(2,353,406)	1,318,531	5,450	(1,029,425)
Non-operating revenues				
Realized and unrealized loss on investment transactions	(4,323,014)	(242,524)	-	(4,565,538)
Change in net assets	(6,676,420)	1,076,007	5,450	(5,594,963)
Net assets at beginning of year	54,765,593	2,879,306	6,483,907	64,128,806
Net assets at end of year	\$ 48,089,173	\$ 3,955,313	\$ 6,489,357	\$ 58,533,843

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statement of Functional Expenses

Year Ended September 30, 2016

Program expenses										
	Research	Academic Relations	Communi- cations	Other Direct	Programs Total	Research Support	Fundraising	Management and Administration	1616 P Street Operations and Maintenance	Total
RFF functional expenses										
Salaries	\$ 3,885,192	\$ 8,210	\$ 544,464	\$ 3,288	\$ 4,441,154	\$ 1,121,265	\$ 592,033	\$ 1,051,078	\$ -	\$ 7,205,530
Benefits	1,124,142	2,574	170,408	1,031	1,298,155	343,227	180,777	296,227	-	2,118,386
Resident consultants	551,368	9,170	-	-	560,538	900	11,600.00	-	-	573,038
Total salaries and benefits	5,560,702	19,954	714,872	4,319	6,299,847	1,465,392	784,410	1,347,305	-	9,896,954
Other costs										
Building operations	-	-	-	-	-	-	-	-	1,968,642	1,968,642
Occupancy	369,880	1,336	47,383	54	418,653	90,995	52,029	85,969	(647,646)	-
Research support	1,826,054	-	-	-	1,826,054	(1,826,054)	-	-	-	-
Communications	433	-	14,866	11,443	26,742	9,416	1,091	2,742	-	39,991
Computer services	1,769	-	90,509	-	92,278	119,522	13,718	45,888	-	271,406
Outside consultants	614,059	24,300	282,262	22,950	943,571	13,590	16,140	53,985	-	1,027,286
Conferences	121,035	7,823	27,568	7,631	164,057	22,154	32,160	79,200	-	297,571
Travel	117,455	7,570	-	-	125,025	8,865	20,867	16,130	-	170,887
Publication costs	55,142	372.00	57,835	-	113,349	8,121	4,446	18,849	-	144,765
Subawards	154,948	-	-	-	154,948	-	-	-	-	154,948
Professional services	110,250	-	5,500	-	115,750	-	12,066	260,656	-	388,472
Grants	33,464	3,598	2,580	-	39,642	3,802	-	10,600	-	54,044
Fellowship stipend	30,039	-	-	-	30,039	-	-	-	-	30,039
Dissertations	-	25,500	-	-	25,500	-	-	-	-	25,500
Depreciation	-	-	-	-	-	-	-	142,381	-	142,381
Other	23,895	35	13,987	-	37,917	84,197	7,059	115,542	30,343	275,058
Total other costs	3,458,423	70,534	542,490	42,078	4,113,525	(1,465,392)	159,576	831,942	1,351,339	4,990,990
Total RFF functional expenses	9,019,125	90,488	1,257,362	46,397	10,413,372	-	943,986	2,179,247	1,351,339	14,887,944
Indirect costs										
General support	813,366	15,516	198,136	4,614	1,031,632	-	161,871	(1,425,226)	231,723	-
Reimbursed	732,259	-	17,472	3,350	753,081	-	-	(753,081)	-	-
Pass-through	940	-	-	-	940	-	-	(940)	-	-
Total indirect costs	1,546,565	15,516	215,608	7,964	1,785,653	-	161,871	(2,179,247)	231,723	-
Total on full absorption basis	\$ 10,565,690	\$ 106,004	\$ 1,472,970	\$ 54,361	\$ 12,199,025	\$ -	\$ 1,105,857	\$ -	\$ 1,583,062	\$ 14,887,944

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statement of Functional Expenses

<i>Year Ended September 30, 2015</i>												
Program expenses												
	Research	Academic Relations	Communi-cations	Other Direct	Programs Total	Research Support	Fundraising	Management and Administration	1616 P Street Operations and Maintenance	Total		
RFF functional expenses												
Salaries	\$ 3,720,983	\$ 2,721	\$ 599,180	\$ 1,575	\$ 4,324,459	\$ 1,029,417	\$ 658,866	\$ 1,075,683	\$ -	\$ 7,088,425		
Benefits	982,506	768	168,770	444	1,152,488	275,044	181,649	288,740	-	1,897,921		
Resident consultants	448,069	8,960	-	-	457,029	7,192	10,000.00	-	-	474,221		
Total salaries and benefits	5,151,558	12,449	767,950	2,019	5,933,976	1,311,653	850,515	1,364,423	-	9,460,567		
Other costs												
Building operations	-	-	-	-	-	-	-	-	1,925,591	1,925,591		
Occupancy	350,563	850	52,582	139	404,134	87,595	58,467	82,934	(633,130)	-		
Research support	1,650,902	-	102	-	1,651,004	(1,651,004)	-	-	-	-		
Communications	906	22	11,958	9,599	22,485	-	593	3,267	-	38,723		
Computer services	5,280	-	46,335	-	51,615	108,261	16,297	49,351	-	225,524		
Outside consultants	266,465	-	438,349	19,325	724,139	7,975	2,525	20,950	-	755,589		
Conferences	165,733	15,637	58,116	8,902	248,388	21,078	42,074	50,326	-	361,866		
Travel	88,232	9,230	4,341	-	101,803	6,594	32,875	4,699	-	145,971		
Publication costs	12,999	-	86,615	-	99,614	14,830	10,238	23,762	-	148,444		
Subawards	205,838	-	-	-	205,838	-	-	-	-	205,838		
Professional services	63,266	500	7,250	-	71,016	500	-	66,284	-	137,800		
Fellowship stipend	20,790	4,374	20,500	-	45,664	6,673	-	6,805	-	59,142		
Dissertations	-	87,500	-	-	87,500	-	-	-	-	87,500		
Depreciation	-	-	-	-	-	-	-	141,755	-	141,755		
Other	(4,209)	34	4,679	81	585	73,467	9,274	138,168	35,341	256,835		
Total other costs	2,826,765	118,147	730,827	38,046	3,713,785	(1,311,653)	172,343	588,301	1,327,802	4,490,578		
Total RFF functional expenses	7,978,323	130,596	1,498,777	40,065	9,647,761	-	1,022,858	1,952,724	1,327,802	13,951,145		
Indirect costs												
General support	619,342	21,254	199,374	3,722	843,692	-	166,469	(1,226,259)	216,098	-		
Reimbursed	674,144	-	44,549	2,799	721,492	-	-	(721,492)	-	-		
Pass-through	4,973	-	-	-	4,973	-	-	(4,973)	-	-		
Total indirect costs	1,298,459	21,254	243,923	6,521	1,570,157	-	166,469	(1,952,724)	216,098	-		
Total on full absorption basis	\$ 9,276,782	\$ 151,850	\$ 1,742,700	\$ 46,586	\$ 11,217,918	\$ -	\$ 1,189,327	\$ -	\$ 1,543,900	\$ 13,951,145		

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statements of Cash Flows

<i>Years Ended September 30,</i>	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 361,439	\$ (5,594,963)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities		
Depreciation	508,450	456,183
Net realized and unrealized (gain) loss on investments	(2,533,100)	4,565,538
Net realized and unrealized loss on assets held under charitable trust agreements	7,102	22,240
Realized gain from sale of gift funds	(1,001)	-
(Increase) decrease in		
Grants and contract revenue receivable	278,437	(141,577)
Contributions receivable	(161,420)	(1,528,454)
Other receivables	3,377	(3,259)
Other assets	(83,390)	125,376
Increase (decrease) in		
Grants and awards payable	(42,375)	(15,982)
Accounts payable and accrued liabilities	454,334	137,505
Postretirement benefits	6,499	13,202
Deferred revenue	(230,864)	(402,890)
Liabilities under split-interest agreements	12,160	9,940
Funds held for others	2,116	(176,199)
Net cash used by operating activities	(1,418,236)	(2,533,340)
Cash flows from investing activities		
Purchases of investments	(12,281,313)	(7,858,878)
Proceeds from sales of investments	15,543,490	11,330,944
Disbursements from charitable trust agreements	(21,498)	(24,704)
Purchases of fixed assets	(1,406,557)	(475,251)
Net cash provided by investing activities	1,834,122	2,972,111

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Statements of Cash Flows (Continued)

<i>Years Ended September 30,</i>	2016	2015
Cash flows from financing activities		
Principal payments on tax-exempt bond financing	(285,000)	(270,000)
Change in cash and cash equivalents	130,886	168,771
Cash and cash equivalents at beginning of year	374,424	205,653
Cash and cash equivalents at end of year	\$ 505,310	\$ 374,424
Supplemental information		
Interest paid	\$ 72,847	\$ 96,361

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Resources for the Future, Inc.

Notes to Financial Statements

1. Organization and significant accounting policies

Organization: Resources for the Future, Inc. (RFF) is a nonprofit tax-exempt corporation headquartered in Washington, D.C. RFF was established in October 1952, with the cooperation of the Ford Foundation. RFF's mission is to improve environmental and natural resource policymaking worldwide through objective social science research of the highest caliber.

Basis of presentation: Net assets and revenue, gains and losses are classified based upon the existence or absence of donor imposed restrictions. Accordingly, the net assets of RFF and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met either by RFF undertaking project activities and/or the passage of time.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of RFF.

Basis of accounting: The financial statements are prepared on the accrual basis of accounting.

Cash and cash equivalents: RFF classifies all highly liquid investments, with original maturities of less than ninety days, as cash equivalents. RFF maintains cash balances which may exceed federally insured limits. RFF does not believe that this results in any significant credit risk.

Grants and contract revenue receivable: Grants and contracts receivable are recorded when the service is rendered or when expenses are incurred for federal programs. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. This balance is deemed fully collectible and therefore no allowance for doubtful accounts was deemed necessary as of September 30, 2016 and 2015.

Contributions receivable: Contributions receivable are recorded when pledged and amounts due after one year are discounted to present value at the risk adjusted rate determined at the time of the pledge. All accounts or portions thereof that are deemed to be uncollectible or that require an excessive cost are written off to the allowance for doubtful accounts. All balances are considered fully collectible and therefore no allowance for doubtful accounts was deemed necessary as of September 30, 2016 and 2015.

Resources for the Future, Inc.

Notes to Financial Statements

Investments: Investments in marketable securities are presented at fair value. Hedge funds are valued at the net asset value (NAV) as reported by the fund managers and reviewed by RFF. Fair values of alternative investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

All marketable securities are considered investments rather than cash equivalents, even though the maturities at the time of acquisition for certain of these securities were less than ninety days. Money market accounts are valued at cost, which approximates fair value.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Management classifies interest and dividend income as components of operating income, while realized and unrealized gains and losses on investments are considered non-operating income.

RFF values certain investments in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments not included within the fair value hierarchy are measured at NAV as a practical expedient to estimate fair value.

Resources for the Future, Inc.

Notes to Financial Statements

Fixed assets: Fixed asset purchases of \$500 or more for furniture and equipment and \$1,000 or more for building and tenant improvements are carried at cost and depreciated using the straight-line method over their estimated useful lives which are as follows:

Furniture	10 years
Equipment and software	3-5 years
1616 P Street building	39.5 years
Tenant improvements	10 years

Tax-exempt bond financing: RFF obtained permanent financing on the 1616 P Street building through the issuance of tax-exempt bond financing in August 1998. The bond payable has a variable interest rate which averaged 1.53% and 2.03% for the years ended September 30, 2016 and 2015, respectively. See Note 12.

Split-interest agreements: RFF values the annuity obligations using actuarial estimates that approximate the present value of the obligations.

Revenue and expense recognition: Revenue from program grants and contracts is recognized in amounts equal to total reimbursable direct and indirect costs. Unconditional contributions are recognized when the pledge is received.

Rental income is recognized straight-line over the period of the lease.

Expenses are recorded when incurred. Grants awarded by RFF are expensed at the time of approval by the Directors or the President.

Allocation of indirect costs: The costs of providing the various programs and other activities are presented on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

<i>Allocated Expenses</i>	<i>Basis for Allocation</i>
Employee benefits	Total salaries
Occupancy	Total salaries and benefits
Research support	Research salaries and benefits
Management and administration	Total direct costs

Resources for the Future, Inc.

Notes to Financial Statements

Income taxes: RFF is exempt from federal income taxation as described in Internal Revenue Code Section 501(c)(3) and is classified as a publicly supported organization.

Uncertainties in income taxes: RFF evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of September 30, 2016 and 2015, there are no accruals for uncertain tax positions. If applicable, RFF records interest and penalties as a component of income tax expense. Tax years from 2013 through the current year remain open for examination by tax authorities.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the date of the statement of financial position, and revenue and expenses during the reporting period. Actual results could differ from these estimates.

New accounting standard adopted: In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this ASU remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using the practical expedient. The amendments in this ASU are effective for public business entities for the fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. Early adoption is permitted. Management has elected to early adopt this ASU in the accompanying financial statements as of September 30, 2016 and 2015.

Subsequent events: Management has evaluated subsequent events for disclosure in the financial statements through February 10, 2017, which is the date the financial statements were available to be issued.

Resources for the Future, Inc.

Notes to Financial Statements

2. Investments The following is a summary of the investment portfolio by security type as of September 30,:

	2016	2015
Operating fund		
Money market accounts	\$ 30,506	\$ 3,913
Reserve fund		
Money market accounts	74,452	5,235
Domestic equity emerging markets	12,807,876	11,882,076
International equity emerging markets	10,135,126	11,349,311
Global allocation funds	6,247,878	5,228,498
Fixed income – convertible securities funds	6,353,770	6,862,404
Commodities funds	4,166,006	3,990,040
Alternative funds	11,947,167	13,070,162
Private placement	30,468	39,397
Equity exchange traded funds	1,735,104	1,827,509
Total reserve fund	53,497,847	54,254,632
Gift fund		
Money market accounts	22,391	23,323
Mutual fund – domestic	7,486	6,617
Mutual fund – international	34,965	32,786
Total gift fund	64,842	62,726
Total investment portfolio	\$ 53,593,195	\$ 54,321,271

Investment income (losses) for the years ended September 30 is as follows:

	2016	2015
Operating		
Interest and dividends	\$ 1,761,302	\$ 2,025,831
Investment and custodial fees	(451,798)	(499,543)
Operating investment income	1,309,504	1,526,288
Non-operating		
Realized gain on investment transactions	18,036	2,029,209
Unrealized gain (loss) on investment transactions	2,515,064	(6,594,747)
Non-operating investment income	2,533,100	(4,565,538)
Total investment income (losses)	\$ 3,842,604	\$ (3,039,250)

Resources for the Future, Inc.

Notes to Financial Statements

3. Fair value The fair value of assets and liabilities as of September 30, 2016 is as follows:

September 30, 2016	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment portfolio:				
Money market	\$ 127,349	\$ 127,349	\$ -	\$ -
Mutual fund – domestic	7,486	7,486	-	-
Mutual fund – international	34,965	34,965	-	-
Domestic equity emerging markets	12,807,876	12,807,876	-	-
International equity emerging markets	10,135,126	10,135,126	-	-
Global allocation funds	6,247,878	6,247,878	-	-
Fixed income funds	6,353,770	6,353,770	-	-
Commodities funds	4,166,006	4,166,006	-	-
Private placement	30,468	-	-	30,468
Equity exchange traded funds	1,735,104	1,735,104	-	-
Total assets within the fair value hierarchy	41,646,028	41,615,560	-	30,468
Investments valued at net asset value ^(a)	11,947,167			
Total investment portfolio	53,593,195			
Assets held under trust:				
Money market	3,118	3,118	-	-
Mutual fund – domestic	167,558	167,558	-	-
Mutual fund – international	63,433	63,433	-	-
Mutual fund – fixed income	91,643	91,643	-	-
Total assets held under trust	325,752	325,752	-	-
Split interest obligation	(193,339)	-	-	(193,339)
Total fair value	\$ 53,725,608	\$ 41,941,312	\$ -	\$ (162,871)

Resources for the Future, Inc.

Notes to Financial Statements

The fair value of assets and liabilities as of September 30, 2015 is as follows:

September 30, 2015	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment portfolio:				
Money market	\$ 32,471	\$ 32,471	\$ -	\$ -
Mutual fund – domestic	6,617	6,617	-	-
Mutual fund – international	32,786	32,786	-	-
Domestic equity emerging markets	11,882,076	11,882,076	-	-
International equity emerging markets	11,349,311	11,349,311	-	-
Global allocation funds	5,228,498	5,228,498	-	-
Fixed income funds	6,862,404	6,862,404	-	-
Commodities funds	3,990,040	3,990,040	-	-
Private placement	39,397	-	-	39,397
Equity exchange traded funds	1,827,509	1,827,509	-	-
Total assets within the fair value hierarchy	41,251,109	41,211,712	-	39,397
Investments valued at net asset value ^(a)	13,070,162			
Total investment portfolio	54,321,271			
Assets held under trust:				
Money market	4,504	4,504	-	-
Mutual fund – domestic	106,554	106,554	-	-
Mutual fund – international	97,927	97,927	-	-
Mutual fund – fixed income	87,542	87,542	-	-
Mutual fund – global allocation	33,726	33,726	-	-
Total assets held under trust	330,253	330,253	-	-
Split interest obligation	(200,076)	-	-	(200,076)
Total fair value	\$54,451,448	\$41,541,965	\$ -	\$ (160,679)

Resources for the Future, Inc.

Notes to Financial Statements

(a) In accordance with ASU 2015-07, certain investments that were measured at net asset per share (or its equivalent) as of September 30, 2016 and 2015 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 Statements of Financial Position.

Level 1 values were developed utilizing quoted prices in active markets.

Level 3 values for private placement were developed based on RFF's determination of fair value based upon the best available information and may incorporate management assumptions and best estimates after considering a variety of internal and external factors.

Level 3 values for split-interest obligations are developed utilizing actuarial calculations that approximate their present fair value.

A reconciliation of beginning and ending balances of investments valued using significant unobservable (Level 3) inputs for the year ended September 30, 2016 is as follows:

	Balance at September 30, 2015	Total realized gains or losses	Total unrealized gains or losses	Purchases and issuances	Sales and settlements	Balance at September 30, 2016
Private placement						
Hicks						
Muse	\$ 39,397	\$ -	\$ (8,929)	\$ -	\$ -	\$ 30,468
Split interest obligation	\$(200,076)	\$(30,445)	\$37,548	\$(21,864)	\$21,498	\$(193,339)

4. Investments measured at net asset value

RFF's determination of fair value is based upon the best available information and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. The values generally represent the RFF's proportionate share of the fund's capital as reported by the general partners of the fund. RFF has decided through monitoring the valuation methodologies and practices of managers to rely on the fair values reported by the fund managers, unless information becomes available indicating the reported NAV may require adjustment. RFF assessed factors including, but not limited to, the external advisor's adherence to fair value principles in calculating the capital account balance, RFF's

Resources for the Future, Inc.

Notes to Financial Statements

ability to redeem these investments at NAV at the measurement date, and the existence or absence of certain restrictions at the measurement date. RFF believes the reported amount of the alternative investments is a reasonable estimate of fair value as of September 30, 2016 and 2015. RFF has no plans to sell the investments for a value other than the NAV as of September 30, 2016.

Investments measured at net asset value as of September 30, 2016 and 2015 are as follows:

September 30, 2016	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity hedge fund	\$ 3,425,242	\$ -	Semiannually	95 days
Equity hedge fund	2,465,50	-	Annually	90 days
Master/feeder fund	3,035,31	-	Annually	Before September 15
Master/feeder fund	965,61	-	Must be negotiated	Must be negotiated
Fund of funds	2,055,45	-	Quarterly	45 days
Total	\$ 11,947,167	\$ -		

September 30, 2015	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity hedge fund	\$ 3,473,606	\$ -	Semiannually	95 days
Equity hedge fund	2,454,43	-	Annually	90 days
Equity hedge fund	1,448,48	-	Semiannually	90 days
Master/feeder fund	3,072,14	-	Annually	Before September 15
Master/feeder fund	400,50	-	Must be negotiated	Must be negotiated
Fund of funds	2,220,98	-	Quarterly	45 days
Total	\$ 13,070,162	\$ -		

Resources for the Future, Inc.

Notes to Financial Statements

The fund managers' strategy is to build low volatility portfolios that employ market neutral or market uncorrelated investment strategies that offer risk adjusted returns. The alternative investments held through equity hedge funds incorporate multiple strategies to diversify risk including convertible bond arbitrage, credit opportunities, purchase or short sale of distressed securities, event-driven investing, global derivatives, debentures, and commercial paper. The master/feeder funds have strategies which include investing in private companies, debt securities, physical commodities, credit default swaps, and opportunistic investments. The fund of funds has a strategy which includes investing in directional equity, macro fund investments, and event driven investments.

5. Risks and uncertainties

RFF holds investments in various securities and alternative investments that are exposed to risks, such as interest rate, credit, and overall volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in future statements of net assets available for benefits.

6. Contributions receivable

At September 30, 2016 and 2015, RFF had unconditional contributions receivable that included amounts due in:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 2,688,983	\$ 1,949,553
One to five years	465,000	1,075,000
Fifteen to twenty years	1,000,000	1,000,000
Contributions receivable before discount	4,153,983	4,024,553
Present value discount	(452,033)	(484,023)
Contributions receivable	\$ 3,701,950	\$ 3,540,530

The receivables due in one year or more have been discounted to their present value using a risk adjusted rate of 6.20% determined at the time of pledge. Changes in the present value discount are recorded as contribution revenue and are included in general support and contributions on the accompanying Statements of Activities and Changes in Net Assets.

Resources for the Future, Inc.

Notes to Financial Statements

7. Fixed assets Fixed assets consisted of the following as of September 30,:

	2016	2015
Building - 1616 P Street	\$ 10,313,563	\$ 9,009,364
Building improvements	1,478,804	1,475,461
Furniture and equipment	1,965,792	1,866,777
Fixed assets	13,758,159	12,351,602
Accumulated depreciation	(6,308,841)	(5,800,391)
Fixed assets, net	\$ 7,449,318	\$ 6,551,211

Depreciation expense is included on the accompanying Statements of Functional Expense as follows for the years ending September 30,:

	2016	2015
Building and related improvement depreciation included in occupancy expense	\$ 265,478	\$ 250,565
Computer and telephone system depreciation included in research expense	100,591	63,863
Furniture and equipment depreciation	142,381	141,755
Total depreciation expense	\$ 508,450	\$ 456,183

8. Retirement plan RFF employees are eligible for participation in RFF's retirement program, which is invested in individual retirement contracts at TIAA-CREF, insurance companies or USI Consulting Group. Individual contracts issued under the plan provide for full and immediate vesting of both RFF and participant contributions. RFF's contributions amounted to \$865,091 and \$845,962 for the years ended September 30, 2016 and 2015, respectively.

Resources for the Future, Inc.

Notes to Financial Statements

- 9. Postretirement benefits other than pensions** Employees who retire under RFF's retirement plan with a minimum of five years of service are covered by RFF's medical plan at one year for every two completed years of service. Benefits are provided to eligible retirees after age 63 and to their dependents. RFF accrues the expected costs of such benefits during a portion of the employees' years of service. RFF's postretirement benefit obligations under this plan as of September 30, 2016 and 2015 were estimated to be \$619,315 and \$612,816, respectively, and these amounts are included in the accompanying Statements of Financial Position. There are no separate plan assets associated with these liabilities. The plan expenses for the years ended September 30, 2016 and 2015 were as follows:

	2016	2015
Service costs	\$ -	\$ -
Projected interest cost	18,323	21,046
Net periodic cost	\$ 18,323	\$ 21,046

Actual payments made under the plan were \$1,947 and \$7,789 for the years ended September 30, 2016 and 2015, respectively.

Benefits expected to be paid in each of the next five years are approximately as follows:

Year Ending September 30,	Amount
2017	\$ 27,270
2018	48,965
2019	54,606
2020	48,908
2021	47,295

Resources for the Future, Inc.

Notes to Financial Statements

10. Split interest agreements

RFF enters into split interest arrangements whereby donations are held in trust by RFF and invested. A percentage of the original funds, at a rate determined at the inception of the trust, is payable to the donor for a specified period of time or until the donor's death, after which time RFF may use the investments for operations or a restricted use specified by the donor. RFF is the trustee of two charitable remainder unitrusts (CRT's) where they have the charitable remainder interest. RFF utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. RFF determined the discount rate to be used in the month the split interest arrangements were entered into with the donor and these rates have ranged from 5.4% to 6.5%. The present value of the actuarially determined liability resulting from these gifts was recorded at the date of the gift and adjusted annually thereafter. The combined trust assets as of September 30, 2016 and 2015 are as follows:

	2016	2015
Money market accounts	\$ 3,118	\$ 4,504
Mutual fund – domestic	167,558	106,554
Mutual fund – international	63,433	97,927
Mutual fund – fixed income	91,643	87,542
Mutual fund – global allocation	-	33,726
Assets held under charitable trust agreements	\$ 325,752	\$ 330,253

The trust assets are Level 1 investments (see Note 3). The estimated present value of liabilities under the CRT are reflected as liabilities under split-interest agreements in the accompanying Statements of Financial Position.

11. Line of credit

During 2010, RFF entered into a revolving line of credit agreement. This line has no maturity date and no formal repayment terms. Amounts available are based on the margin release of investments held (between 30-50%) and bear interest at the London Interbank Offering Rate plus a client spread (totaling 3.70% and 3.20% at September 30, 2016 and 2015, respectively). At September 30, 2016 and 2015, \$1,000,000 was available. The line is collateralized by a portion of RFF's investment portfolio which totaled \$3,911,170 and \$5,366,945 as of September 30, 2016 and 2015 respectively. No amounts were outstanding on the line of credit at September 30, 2016 or 2015.

Resources for the Future, Inc.

Notes to Financial Statements

12. Tax exempt bond financing

RFF obtained permanent financing on the 1616 P Street building through the issuance of District of Columbia Variable Rate Revenue Bonds, Series 1998. These bonds mature, subject to prior redemption, on August 1, 2029. The interest rate on these bonds is determined weekly by a remarketing agent. The average interest rate for the years ended September 30, 2016 and 2015 was 1.53% and 2.03%, respectively. For the years ended September 30, 2016 and 2015, interest expense relating to the tax-exempt financing was \$72,847 and \$96,361, respectively, which is included as part of 1616 P Street Operations and Maintenance expense in the accompanying Statements of Functional Expenses. The principal redemptions required on these bonds for the next five years, and thereafter are as follows:

Year Ending September 30,	Amount
2017	\$ 295,000
2018	310,000
2019	325,000
2020	340,000
2021	355,000
Thereafter	2,980,000
Total	\$ 4,605,000

To support the bonds, RFF has an Irrevocable Letter of Credit from Citibank in the amount of \$7,405,600. This letter of credit is evergreen as it automatically renews every year. It is secured by a first priority security interest in the building and fixtures, located at 1616 P Street, N.W., Washington, D.C. and the assignment of all leases.

Resources for the Future, Inc.

Notes to Financial Statements

13. Temporarily restricted net assets

Temporarily restricted net assets are restricted for the following program areas as of September 30, 2016 and 2015:

	2016			
	Temporarily Restricted Funds as of September 30, 2015	Contributions and Gain on Investments	Satisfaction of Temporary Restrictions	Temporarily Restricted Funds as of September 30, 2016
Center for Climate & Electricity Policy	\$ 2,486,672	\$ 2,596,148	\$ 2,772,820	\$ 2,310,000
Other Research Programs	1,468,641	2,551,580	1,157,951	2,862,270
Total	\$ 3,955,313	\$ 5,147,728	\$ 3,930,771	\$ 5,172,270

	2015			
	Temporarily Restricted Funds as of September 30, 2014	Contributions and Loss on Investments	Satisfaction of Temporary Restrictions	Temporarily Restricted Funds as of September 30, 2015
Center for Climate & Electricity Policy	\$ 1,379,624	\$ 2,870,387	\$ 1,763,339	\$ 2,486,672
Other Research Programs	1,499,682	1,342,889	1,373,930	1,468,641
Total	\$ 2,879,306	\$ 4,213,276	\$ 3,137,269	\$ 3,955,313

14. Permanently restricted net assets

Permanently restricted net assets are held in perpetuity. The income is used to fund certain chairs, which as of September 30, 2016 and 2015 are as follows:

	2016	2015
Gaskins chair	\$ 2,000,000	\$ 2,000,000
Starr chair	2,004,047	2,004,047
Klutznick chair	1,422,710	1,422,710
Krutilla chair	139,650	139,650
Landsberg chair	31,135	31,135
Kneese chair	325,365	325,365
Forestry chair	566,500	566,450
Total	\$ 6,489,407	\$ 6,489,357

Resources for the Future, Inc.

Notes to Financial Statements

RFF's endowment consists of permanently restricted contributions established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the Relevant Law

RFF's management has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary and as allowing RFF to appropriate funds for expenditure as RFF determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor. As a result of this interpretation, RFF 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.

In accordance with UPMIFA, RFF 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 organization and donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

The change in endowment net assets for the year ended September 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2015	\$ (46,147)	\$ -	\$ 6,489,357	\$ 6,443,210
Contributions	-	-	50	50
Expenditures	-	(266,471)	-	(266,471)
Investment gain	46,147	372,830	-	418,977
Endowment net assets at September 30, 2016	\$ -	\$ 106,359	\$ 6,489,407	\$ 6,595,766

Resources for the Future, Inc.

Notes to Financial Statements

The change in endowment net assets for the year ended September 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2014	\$ -	\$ 508,995	\$ 6,483,907	\$ 6,992,902
Contributions	-	-	5,450	5,450
Expenditures	-	(266,471)	-	(266,471)
Investment loss	(46,147)	(242,524)	-	(288,671)
Endowment net assets at September 30, 2015	\$ (46,147)	\$ -	\$ 6,489,357	\$ 6,443,209

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of September 30, 2016 and 2015 is \$6,489,407 and \$6,489,357, respectively.

Underwater Endowment Funds - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of unrestricted net assets.

Return Objectives and Risk Parameters - RFF 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 preserve 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 and board designated funds. RFF's investment policy aims to return an amount equal to 5% plus inflation to maintain the real value of the fund.

Strategies Employed for Achieving Objectives - The Finance Committee evaluates, selects and monitors one or more investment managers to directly manage RFF's investment portfolio of assets within general guidelines provided.

Spending Policy and How the Investment Objectives Relate to Spending Policy - RFF's spending policy is 5% of the average market value of the funds over the past two and one half years.

Resources for the Future, Inc.

Notes to Financial Statements

15. Operating leases

RFF owns the office building at 1616 P Street, N.W., in Washington, D.C. RFF occupies almost 40% of the building and leases the balance of the office space to other like-purpose 501(c)(3) organizations. These operating leases expire in various years through fiscal year 2020.

Future minimum payments receivable as of September 30, 2016 are listed below:

Year ending September 30,	Amount
2017	1,788,374
2018	848,510
2019	349,153
2020	229,336
2021	5,933
Total	\$ 3,221,306

Total lease revenue for the year for the 1616 P Street office building was \$1,645,914 and \$1,622,203 for the years ended September 30, 2016 and 2015, respectively.

The land at 1616 P Street is owned by an unrelated party. RFF is currently leasing the land under a 99-year lease at a rate of \$242,000 per year. The lease commenced January 1, 1986 and has a remaining term of 70 years. The future minimum lease payments are as follows as of September 30, 2016:

Year ending September 30,	Amount
2017	\$ 242,000
2018	242,000
2019	242,000
2020	242,000
2021	242,000
Thereafter	15,488,000
Total	\$ 16,698,000

Total rent expense was \$242,004 for each of the years ending September 30, 2016 and 2015. The rental agreement has a reset date in 2018 at which time the annual payment amount may change.



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Independent Auditor's Report on Supplementary Information

Board of Directors
Resources for the Future, Inc.
Washington, D.C.

We have audited the financial statements of **Resources for the Future, Inc.** as of and for the years ended September 30, 2016 and 2015, and our report thereon dated February 10, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 - 3. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Dissertation Awards and Schedule of Determination of Cost Recovery Rates are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rockville, Maryland
February 10, 2017

Resources for the Future, Inc.

Schedule of Dissertation Awards

<i>Year Ended September 30, 2016</i>	Balance at September 30, 2015	Grants Awarded	Payments Made	Balance at September 30, 2016
Dissertation awards program				
David Cerruti "Behavioral Response to Environmental Taxation: Evidence from the Transportation Sector"	\$ 1,500	\$ -	\$ (1,500)	\$ -
Michelle Marcus "Transaction Taxes in an Agent-Based Financial Market Model: Sensitivity to Calibration"	13,500	-	(13,500)	-
Ashley Vissing "Environmental Justice and Coasian Bargaining: The Role of Race and Income in Lease Negotiation for Shale Gas"	12,000	-	(12,000)	-
Josh Blonz "Essays in Energy Economics"	-	2,000	(500)	1,500
Robert T. Fetter "Firm Learning and Regulation in Emerging Technologies"	-	18,000	(4,500)	13,500
Catherine Hausman "Rate of Return Regulation and Environmental Externalities: Evidence from Natural Gas"	-	5,500	(1,375)	4,125
Ujjayant Chakravorty "Food for Fuel: The Effect of the U.S. Biofuel Mandate on Poverty in India"	34,500	-	(34,500)	-
	\$ 61,500	\$ 25,500	\$ (67,875)	\$ 19,125

Refer to accompanying Independent Auditor's Report on Supplementary Information.

Resources for the Future, Inc.

Schedule of Determination of Cost Recovery Rates

Year Ended September 30, 2016

Management and administration rate	
Management and administration costs	\$ 2,179,247
Determination of direct cost base	
Total program costs plus building operations before allocation	\$ 11,764,711
Plus fundraising costs before allocation	943,986
Total direct cost base	\$ 12,708,697
Management and administration rate	17.15%
Regular fringe benefits rate	
Regular benefits	\$ 2,016,006
Regular salaries	\$ 6,429,431
Regular fringe benefits rate	31.36%
Research assistant fringe benefits rate	
Research assistant benefits	\$ 102,380
Research assistant salaries	\$ 569,900
Research assistant fringe benefits rate	17.96%
Research support rate	
Research support expenses	\$ 1,769,944
Research salaries and benefits	\$ 3,714,556
Research support rate	47.65%
Program research support rate	
Program research support expenses	\$ 56,110
Program research salaries and benefits	\$ 280,552
Program research support rate	20.00%
Occupancy rate	
Occupancy expense	\$ 647,646
Salaries and benefits	\$ 9,690,755
Occupancy rate	6.68%

Refer to accompanying Independent Auditor's Report on Supplementary Information.