

PKD FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

**PKD FOUNDATION
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YEARS ENDED JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
PKD Foundation
Kansas City, Missouri

We have audited the accompanying financial statements of PKD Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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.

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 Foundation'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 Foundation'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.

Board of Directors
PKD Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PKD Foundation as of June 30, 2017 and 2016, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Joseph, Missouri
October 10, 2017

PKD FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 130,705	\$ 112,888
Pledges Receivable - Net	52,880	251,534
Other Receivables	51,290	92,246
Inventory	31,084	32,772
Prepaid Expenses	51,837	21,327
Deposits	3,695	27,658
Total Current Assets	321,491	538,425
INVESTMENTS	4,620,674	4,826,556
PROPERTY AND EQUIPMENT		
Equipment and Software	426,761	398,200
Less: Accumulated Depreciation	289,837	207,314
Total Property and Equipment	136,924	190,886
OTHER ASSETS		
Long-Term Pledges Receivable - Net	124,150	123,890
Lease Deposit	15,533	15,533
Total Other Assets	139,683	139,423
Total Assets	\$ 5,218,772	\$ 5,695,290
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable:		
Trade	\$ 111,998	\$ 255,103
Research Grants	166,667	166,666
Software Contract	-	42,156
Deferred Rent	2,337	-
Accrued Liabilities	131,089	225,243
Total Current Liabilities	412,091	689,168
LONG-TERM LIABILITIES		
Deferred Rent	90,963	-
Research Grants	-	166,667
Total Liabilities	503,054	855,835
NET ASSETS		
Unrestricted		
Operating	1,626,441	1,926,415
Board-Designated	1,927,341	1,745,952
Total Unrestricted Net Assets	3,553,782	3,672,367
Temporarily Restricted	161,936	167,088
Permanently Restricted	1,000,000	1,000,000
Total Net Assets	4,715,718	4,839,455
Total Liabilities and Net Assets	\$ 5,218,772	\$ 5,695,290

See accompanying Notes to Financial Statements.

PKD FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017					2016				
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND PUBLIC SUPPORT										
Contributions	\$ 2,942,891	\$ 1,984,860	\$ 437,591	\$ -	\$ 5,365,342	\$ 3,253,308	\$ 1,891,541	\$ 397,437	\$ -	\$ 5,542,286
Gifts-in-Kind	298,560	192,323	-	-	490,883	426,950	327,830	-	-	754,780
Special Events	323,576	-	4,500	-	328,076	342,993	-	-	-	342,993
Less: Direct Costs	(74,212)	-	-	-	(74,212)	(60,366)	-	-	-	(60,366)
Miscellaneous Income	7,030	-	-	-	7,030	9,942	-	-	-	9,942
Investment Income - Net	24,423	46,064	28,960	-	99,447	17,578	4,513	2,657	-	24,748
Unrealized Gain (Loss) on Investments, Net	(12,362)	135,326	85,077	-	208,041	(4,083)	44,259	26,058	-	66,234
Satisfaction of Purpose Restrictions	561,280	-	(561,280)	-	-	648,450	(2,820)	(645,630)	-	-
Net Assets Designated	-	-	-	-	-	(1,700,000)	1,700,000	-	-	-
Total Revenues, Gains, and Public Support	4,071,186	2,358,573	(5,152)	-	6,424,607	2,934,772	3,965,323	(219,478)	-	6,680,617
EXPENSES										
Program Services:										
Research	1,640,203	544,296	-	-	2,184,499	1,863,053	665,811	-	-	2,528,864
Education and Support	341,473	932,518	-	-	1,273,991	673,337	1,250,466	-	-	1,923,803
Awareness and Advocacy	654,587	700,370	-	-	1,354,957	1,068,900	241,454	-	-	1,310,354
Total Program Services	2,636,263	2,177,184	-	-	4,813,447	3,605,290	2,157,731	-	-	5,763,021
Supporting Services:										
Administrative	971,301	-	-	-	971,301	970,363	-	-	-	970,363
Development	763,596	-	-	-	763,596	580,582	61,640	-	-	642,222
Total Supporting Services	1,734,897	-	-	-	1,734,897	1,550,945	61,640	-	-	1,612,585
Total Expenses	4,371,160	2,177,184	-	-	6,548,344	5,156,235	2,219,371	-	-	7,375,606
CHANGES IN NET ASSETS	(299,974)	181,389	(5,152)	-	(123,737)	(2,221,463)	1,745,952	(219,478)	-	(694,989)
Net Assets - Beginning of Year	1,926,415	1,745,952	167,088	1,000,000	4,839,455	4,147,878	-	386,566	1,000,000	5,534,444
NET ASSETS - END OF YEAR	<u>\$ 1,626,441</u>	<u>\$ 1,927,341</u>	<u>\$ 161,936</u>	<u>\$ 1,000,000</u>	<u>\$ 4,715,718</u>	<u>\$ 1,926,415</u>	<u>\$ 1,745,952</u>	<u>\$ 167,088</u>	<u>\$ 1,000,000</u>	<u>\$ 4,839,455</u>

See accompanying Notes to Financial Statements.

**PKD FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (123,737)	\$ (694,989)
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	94,839	55,762
(Gain) Loss on Sale of Investments	(41,143)	6,985
Unrealized Gain on Investments	(208,041)	(66,234)
(Increase) Decrease in Assets:		
Pledges Receivable - Net	198,394	262,784
Other Receivables	40,956	13,376
Inventory	1,688	(32,772)
Prepaid Expenses	(30,510)	(815)
Deposits	23,963	(15,668)
Increase (Decrease) in Liabilities:		
Accounts Payable - Trade	(143,105)	113,231
Research Grants Payable	(166,666)	(166,667)
Deferred Rent	93,300	-
Accrued Liabilities	(94,154)	9,540
Net Cash Used by Operating Activities	(354,216)	(515,467)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	1,474,514	5,488,568
Purchases of Investments	(1,019,448)	(5,330,464)
Purchases of Property and Equipment	(40,877)	(106,119)
Net Cash Provided by Investing Activities	414,189	51,985
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Software Contracts	(42,156)	(42,156)
Net Cash Used by Financing Activities	(42,156)	(42,156)
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,817	(505,638)
Cash and Cash Equivalents - Beginning of Year	112,888	618,526
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 130,705	\$ 112,888

See accompanying Notes to Financial Statements.

**PKD FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

EXPENSES	<u>Research</u>	<u>Education and Support</u>	<u>Awareness and Advocacy</u>	<u>Administrative</u>	<u>Development</u>	<u>Total Expenses</u>
Salaries and Benefits	\$ 390,097	\$ 491,152	\$ 685,378	\$ 684,824	\$ 468,957	\$ 2,720,408
Travel and Meetings	56,779	40,810	45,794	29,261	62,813	235,457
Printing/Postage/Telephone	7,899	15,849	79,870	7,717	25,882	137,217
Office Supplies	972	6,600	4,900	1,708	1,917	16,097
Dues/Fees/Publications/ Professional Development	4,186	1,507	11,148	8,240	19,011	44,092
Equipment and Software	7,658	18,615	30,753	24,165	14,657	95,848
Advertising and Education	-	7,733	124,636	-	-	132,369
Professional Fees	83,367	104,202	219,132	46,214	124,481	577,396
Bank and Credit Card Fees	-	6,954	-	66,804	-	73,758
Occupancy	27,136	66,421	102,964	86,382	35,969	318,872
Insurance	1,777	2,143	3,001	3,115	2,050	12,086
Conferences/Special Events/Awards	82	490,190	-	834	471	491,577
Grants and Sponsorships	1,517,890	-	-	-	-	1,517,890
External R&D Funding	80,438	-	-	-	-	80,438
Depreciation and Amortization	6,218	21,815	47,381	12,037	7,388	94,839
Total Expenses	<u>\$ 2,184,499</u>	<u>\$ 1,273,991</u>	<u>\$ 1,354,957</u>	<u>\$ 971,301</u>	<u>\$ 763,596</u>	<u>\$ 6,548,344</u>

See accompanying Notes to Financial Statements.

**PKD FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

EXPENSES	<u>Research</u>	<u>Education and Support</u>	<u>Awareness and Advocacy</u>	<u>Administrative</u>	<u>Development</u>	<u>Total Expenses</u>
Salaries and Benefits	\$ 334,742	\$ 770,878	\$ 685,949	\$ 629,900	\$ 370,764	\$ 2,792,233
Travel and Meetings	71,161	79,972	57,841	22,019	58,383	289,376
Printing/Postage/Telephone	7,276	44,029	86,878	23,820	43,231	205,234
Office Supplies	553	10,807	10,250	1,198	650	23,458
Dues/Fees/Publications/ Professional Development	2,383	2,153	11,371	8,657	15,835	40,399
Equipment and Software	5,226	11,364	11,550	9,576	12,989	50,705
Advertising and Education	4,750	12,635	126,306	-	-	143,691
Professional Fees	154,313	179,198	194,900	125,216	93,872	747,499
Bank and Credit Card Fees	-	-	-	80,978	-	80,978
Occupancy	35,533	77,258	70,094	65,104	36,959	284,948
Insurance	1,397	3,036	2,755	2,559	1,453	11,200
Conferences/Special Events/Awards	-	718,446	17,863	404	4,973	741,686
Grants and Sponsorships	1,740,056	-	-	-	-	1,740,056
External R&D Funding	168,381	-	-	-	-	168,381
Depreciation and Amortization	3,093	14,027	34,597	932	3,113	55,762
Total Expenses	<u>\$ 2,528,864</u>	<u>\$ 1,923,803</u>	<u>\$ 1,310,354</u>	<u>\$ 970,363</u>	<u>\$ 642,222</u>	<u>\$ 7,375,606</u>

See accompanying Notes to Financial Statements.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PKD Foundation (the Foundation) was formed in 1982 as a Missouri nonprofit organization to support scientific research into the cause, treatment, and cure of polycystic kidney disease (PKD). Originally formed as PKR Foundation, the Foundation amended its articles in 2001 to change its name to PKD Foundation. In 2009, the Foundation adopted a new vision statement that “no one suffers the full effects of polycystic kidney disease” and a new mission statement to “promote programs of research, advocacy, education, support, and awareness in order to discover treatments and a cure for polycystic kidney disease and improve the lives of all it affects.” The Foundation operates from an administrative office in Kansas City, Missouri, but conducts fundraising and funds research throughout the United States, Canada, Europe, and Japan. Significant accounting policies followed by the Foundation are presented below.

Use of Estimates in Preparing Financial Statements

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Significant estimates incorporated into the Foundation’s financial statements include the timing and collectability of pledges receivable, the fair value of certain gifts-in-kind, and the functional allocation of expenses. Actual results could differ from those estimates.

Basis of Presentation

Financial statement presentation of net assets follows the recommendations of Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted

Unrestricted net assets include all net assets which are neither temporarily nor permanently restricted. This category includes board-designated assets (Chapter Funds and Board-Designated Endowment).

Temporarily Restricted

Temporarily restricted net assets include contributed net assets for which donor-imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

Permanently Restricted

Permanently restricted net assets include contributed net assets which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Pledges Receivable

Contributions, including promises to give, are recorded and recognized as income when they become unconditional. Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Unconditional promises to give, due in future years, are reflected as long-term promises to give and are recorded at their net realizable value, discounted at an appropriate discount rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

The majority of the promises to give are received from a broad base of Foundation contributors as a result of the annual campaign. An allowance for uncollectible pledges is provided based upon management's evaluation of the collectability of each individual pledge and an analysis of historical collection percentages. The allowance is established through a charge against general contribution revenue.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, whether when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Other Receivables

Other receivables are uncollateralized obligations due mainly from program service customers and contributions made by credit card payment. The receivables are stated at the invoice amount, as no finance charges are added to the balances. No provision for doubtful accounts has been provided as all accounts are considered collectible. Payments on other receivables are applied to the specific invoices identified on the remittance advice, or if unspecified, to the earliest unpaid invoices.

Inventories

Inventories consist of publications and are carried at cost, determined using the first-in, first out method.

Research Grants

The Foundation funds biomedical research projects directed towards the cause, treatment, and cure of PKD. Grants are recognized when awarded and no longer subject to any contingencies.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts-In-Kind

Gifts-in-kind consist of donated goods and services such as board travel, advertising, and miscellaneous items used for special events. All such gifts are recorded at their estimated fair value at the date of the donation.

The Foundation recognizes the fair value of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of contributed time not meeting the criteria outlined above is not accumulated or reflected in these statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Foundation have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and services benefited using formulas determined by management to best reflect the true costs of each applicable program.

Impairment of Long-Lived Assets

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Property and Equipment

Office equipment and software is recorded at cost or, if donated, at estimated fair value at the date of gift. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Foundation follows the practice of capitalizing all expenditures for equipment and software in excess of \$1,500. These assets are depreciated on the straight-line method over their estimated useful lives, ranging from three to seven years.

Cash and Cash Equivalents

The Foundation considers all cash and other highly liquid investments having initial maturities of three months or less to be cash equivalents, with the exception of those that are designated to be an integral part of the investment portfolio. Certain cash equivalents are considered to be an integral part of the Foundation's investment program and are, accordingly, recognized as a component of investments on the balance sheets.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments include equity and fixed income mutual funds, corporate bonds and alternative investments, which are carried at fair value, with unrealized and realized gains and losses on investments reported as increases or decreases in unrestricted, temporarily restricted, or permanently restricted net assets based upon donor-imposed restrictions. Investments include investment specific cash equivalents, money market funds, and certificates of deposit that are reported at cost, which approximates fair value.

Income Taxes

The Foundation is exempt from income taxes under section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation does not operate as a private foundation.

Although it is exempt from federal and state income taxes on its principal operations, the Foundation is subject to federal income taxes on the net income from any operations identified by the Internal Revenue Service to generate unrelated business income. No such unrelated business income tax was incurred during 2017 or 2016. The Foundation follows the standards for evaluating uncertain tax positions and has determined no liability should be recorded for uncertain tax positions.

Deferred Rent

For lease agreements that provide for escalating rent payments or free-rent occupancy periods, the Foundation recognizes rent expense on the straight-line basis over the noncancelable lease term and option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonable assured. Deferred rent consists of the difference between cash payments and the recognition of rent expense on a straight-line basis over the life of the lease.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Programs

The Foundation operates the following ongoing programs:

Research

Since its founding in 1982, the Foundation has invested more than \$42 million in research, clinical and scientific grants, as well as fellowships and scientific meetings, making it the largest private funder of polycystic kidney disease (PKD) research. This has led to new discoveries, including identifying the genes responsible for PKD, which enables researchers to investigate possible treatments. Today, 20 PKD Foundation-funded research projects are underway. Additionally, at least five potential treatments are in clinical trials in the United States and at least one more trial is under way in the European Union, and we have made significant progress to better define the regulatory path to approval of novel therapeutic candidates for treatment early in the course of PKD. Initiatives included in research are outlined below.

Research Grants: Grant funding to PKD researchers who focus on the development of a treatment for PKD or on understanding the way in which cysts develop or enlarge in PKD.

Core Grants: Supporting core research grants services and resources for PKD scientists so that Foundation dollars can be leveraged across the PKD research community.

Drug Repurposing: Testing drug candidates to see if they can treat PKD.

PKD Outcomes Consortium Project (PKDOC): Working with the U.S. Food and Drug Administration (FDA) for regulatory approval to use total kidney volume (TKV) as an indicator for human clinical trials – a more appropriate measure of disease progression in ADPKD.

Scientific Meetings: Funding PKD-related meetings that bring experts together and provide continuing education for health professionals.

Tissue Donation: Coordinating donations of discarded PKD kidneys to research labs, allowing individuals to actively participate, and support discovery research.

Clinical Trial Awareness Program (CTAP): Supporting participation in clinical trials by raising awareness through PKD Foundation patients, families, and healthcare professionals.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Programs (Continued)

Education and Support

The Foundation provides local services through its 61 volunteer-run Chapters across the country, and two virtual chapters. These volunteers bring to life the mission of the organization by ensuring that no one faces this disease alone. Education meetings provide valuable information from health care professionals, while support activities range from lending a listening ear to organized group outings.

Chapters raise funds for the Foundation through events like Cocktails for a Cure and the Walk for PKD, the Foundation's signature event to raise funds and awareness. Walks take place in more than 50 cities across the nation each year and have raised nearly \$28 million since 2000.

On a national level, the Foundation provides in-depth resources and education about living with PKD to empower people to manage their health. Offerings include webinars, videos, a multi-faceted website (pkdcure.org/learn), online communities, and print materials. The biennial PKD National Convention is the Foundation's largest education event.

Awareness and Advocacy

The Foundation raises awareness through marketing and public relations so people know what PKD is, understand the Foundation's services, and can learn how to support the Foundation's mission. Marketing materials include PKD Progress magazine, PKDnews monthly email newsletter, social media, a blog, and pkdcure.org. Voices of PKD (pkdcure.org/voicesofpkd) features testimonials and stories about people's experiences with the disease.

The Foundation plays a key role in legislative advocacy to support PKD-related initiatives. The PKD Advocacy Action Center (pkdcure.org/advocate) provides resources and ways for people to advocate. The Foundation also sends Advocacy Alerts to inform PKD patients and families of legislative and public policy issues impacting PKD. The Foundation joins with other kidney disease-related organizations in events that allow advocates to meet with members of Congress to raise awareness of PKD and discuss legislative priorities.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2 FAIR VALUE MEASUREMENTS

In determining fair value, the Foundation uses various valuation approaches within the ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs, by requiring that the most observable inputs be used when available. ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets; and

Level 2 – Valuations based on quoted prices for similar assets or liabilities, or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs, or significant value drivers, are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classifications in the valuation hierarchy.

Equity and Fixed Income Mutual Funds

Fair value of equity and fixed income mutual funds is determined based on quoted market prices. These are classified as investments valued using Level 1 inputs within the valuation hierarchy.

Corporate Bonds

Fair value of corporate bonds is determined based on quoted market prices. These are classified as investments valued using Level 2 inputs within the valuation hierarchy.

Alternative Investments

Fair value of alternative investments is determined based on quoted market prices. These are classified as investments valued using Level 1 inputs within the valuation hierarchy.

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of assets and liabilities measured on a recurring basis, as of June 30, 2017 and 2016, are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
<u>2017</u>				
Mutual Funds:				
Equity	\$ 1,773,152	\$ 1,773,152	\$ -	\$ -
Fixed Income	754,079	754,079	-	-
Corporate Bonds	483,273	-	483,273	-
Alternative Investments:				
Broadly Diversified	261,204	261,204	-	-
Real Estate	45,229	45,229	-	-
Total	<u>\$ 3,316,937</u>	<u>\$ 2,833,664</u>	<u>\$ 483,273</u>	<u>\$ -</u>
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
<u>2016</u>				
Mutual Funds:				
Equity	\$ 1,477,621	\$ 1,477,621	\$ -	\$ -
Fixed Income	649,425	649,425	-	-
Corporate Bonds	496,866	-	496,866	-
Alternative Investments:				
Broadly Diversified	262,198	262,198	-	-
Real Estate	52,117	52,117	-	-
Total	<u>\$ 2,938,227</u>	<u>\$ 2,441,361</u>	<u>\$ 496,866</u>	<u>\$ -</u>

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 INVESTMENTS

During the year ending June 30, 2016, the Foundation adopted a new investment policy, and made a change in its investment strategy. Starting in 2016, the Foundation established guidelines and objectives for an operating fund, operating reserve fund, and endowment funds (see Note 10).

Investments at June 30, 2017 are as follows:

	Original Cost or Basis	Carrying Value	Excess (Deficiency) of Carrying Value Over Original Cost or Basis
Money Market Funds	\$ 1,303,737	\$ 1,303,737	\$ -
Equity Mutual Funds	1,481,299	1,773,152	291,853
Fixed Income Mutual Funds	758,499	754,079	(4,420)
Corporate Bonds	499,717	483,273	(16,444)
Alternative Investments	303,147	306,433	3,286
Total Investments	<u>\$ 4,346,399</u>	<u>\$ 4,620,674</u>	<u>\$ 274,275</u>

Investment returns for the year ended June 30, 2017 are as follows:

Investment Income	\$ 73,444
Net Realized Gain	41,143
Net Unrealized Gain	208,041
Total Investment Return	<u>\$ 322,628</u>
Investment Fees	<u>\$ 15,140</u>

Investments at June 30, 2016 are as follows:

	Original Cost or Basis	Carrying Value	Excess (Deficiency) of Carrying Value Over Original Cost or Basis
Money Market Funds	\$ 788,329	\$ 788,329	\$ -
Certificates of Deposit	1,100,000	1,100,000	-
Equity Mutual Funds	1,432,814	1,477,621	44,807
Fixed Income Mutual Funds	636,140	649,425	13,285
Corporate Bonds	500,949	496,866	(4,083)
Alternative Investments	302,090	314,315	12,225
Total Investments	<u>\$ 4,760,322</u>	<u>\$ 4,826,556</u>	<u>\$ 66,234</u>

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 3 INVESTMENTS (CONTINUED)

Investment returns for the year ended June 30, 2016 are as follows:

Investment Income	\$ 31,733
Net Realized Loss	(6,985)
Net Unrealized Gain	66,234
Total Investment Return	<u>\$ 90,982</u>
Investment Fees	<u>\$ 4,480</u>

NOTE 4 PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give:

	<u>2017</u>	<u>2016</u>
Total Pledges Receivable	\$ 185,875	\$ 383,214
Less: Unamortized Discount	6,850	4,110
Less: Allowance for Uncollectible Pledges	1,995	3,680
Net Pledges Receivable	<u>177,030</u>	<u>375,424</u>
Less: Net Pledges Receivable, Current Portion	52,880	251,534
Net Pledges Receivable, Long-Term	<u>\$ 124,150</u>	<u>\$ 123,890</u>

Interest was imputed in discounting long-term pledges receivable at rates of 1.47% for the year ending June 30, 2017 and 0.71% to 1.29% for the year ending June 30, 2016.

Pledges are due in future years as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 54,875
2019	42,000
2020	42,000
2021	22,000
2022	12,000
Thereafter	13,000
Total	<u>\$ 185,875</u>

The Foundation has been notified that it is designated as a beneficiary of numerous wills and trusts. These gifts are revocable and are not recognized within the accompanying financial statements due to their conditional nature.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 5 RESEARCH GRANTS PAYABLE

Research grants payable were recorded to reflect the funds that were appropriated for future distribution to other nonprofit organizations. Included in grants payable as of June 30 are the following:

	2017	2016
Total Research Grants Payable	\$ 166,667	\$ 333,333
Less: Net Research Grants Payable, Current Portion	166,667	166,666
Net Research Grants Payable, Long-Term	\$ -	\$ 166,667

NOTE 6 LEASE COMMITMENTS

The Foundation leases software under the terms of a capital lease, which requires annual payments of \$42,156, at a 0% interest rate. The lease matures December 18, 2017. The cost of the asset acquired under the capital lease is \$126,468. Related accumulated depreciation was \$106,655 and \$64,499 at June 30, 2017 and 2016, respectively.

The Foundation leased office space under the terms of an operating lease that expired in February 2017. Lease expense for the office space totaled \$180,715 and \$284,948 for the years ended June 30, 2017 and 2016, respectively.

In March 2016, the Foundation entered into a lease agreement for office space with a lease term commencing August 2016, and expiring February 2024. Lease expense for this office space totaled \$138,157 and \$-0- for the years ended June 30, 2017 and 2016. The Foundation has recognized a deferred rent liability totaling \$93,300 and \$-0- at June 30, 2017 and 2016, respectively, in order to recognize lease expense on a straight-line basis over the term of the lease. Future minimum lease payments under the lease are as follows for the years ended June 30:

Year Ending June 30,	Amount
2018	161,470
2019	165,567
2020	169,663
2021	173,760
2022	177,856
Thereafter	305,872
Total	\$ 1,154,188

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 7 BOARD-DESIGNATED NET ASSETS

The Foundation has organized volunteer Chapters located in various cities throughout the United States for the purposes of providing public and patient information and support, education concerning PKD, and assistance in raising funds for mission-related expenses. Funds raised by the individual volunteer Chapters, net of reimbursements of certain direct expenses incurred by those Chapters, are expended for programs of research, advocacy, education, support, and awareness. Funds raised by the Chapters that remain unspent at the balance sheet date are classified as board-designated unrestricted net assets by the Foundation. There were no board-designated net assets relating to chapter funds at June 30, 2017 or 2016.

During the year ending June 30, 2016, the board of trustees designated \$1,700,000 of net assets to form the Laverne H. Duvall Endowment Fund. Earnings on the board-designated endowment are to be used to advance PKD research and therapy development. The total balance of the endowment is \$1,927,341 and \$1,745,952 at June 30, 2017 and 2016, respectively.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
ADPKD Research and Drug Repurposing	\$ 121,999	\$ 102,536
Polycystic Liver Disease Research	-	37,497
Carnes Endowment Earnings	33,092	27,055
Kaplan International Prizes for PKD Research	6,845	-
Total	<u>\$ 161,936</u>	<u>\$ 167,088</u>

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2017 and 2016 consisted of a contribution that established the James M. and Lucille Kemp Carnes Family Endowment. The primary purpose of the endowment is to provide financial support to advance PKD research and therapy development in order to carry out the Foundation's roles and missions. The endowment was formally established in September 2015.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 ENDOWMENT

The purpose of the Research Opportunity Fund and Named Endowments (collectively referred to as the endowments) is to provide for growth-oriented long-term investment of funds that are not needed to meet the day-to-day financial obligations of the Foundation. Unless otherwise designated by a donor, interest, dividends, and capital gains may be used to advance PKD research and therapy development. While not ideal or intended, unrestricted principal may also be used for the same purpose, subject to unanimous approval by the board of trustees (the board). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board has interpreted Missouri's enactment of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. Consequently, the Foundation classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board. In accordance with UPMIFA, 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 purpose 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 Foundation
7. The investment policies of the Foundation

Return Objectives and Risk Parameters

The Foundation has adopted investment objectives and spending policies for endowment assets that attempt to provide a predictable stream of funding. Measured over a market cycle (generally defined as 7 to 10 year rolling periods), the endowment assets are invested in a manner that is intended to equal or exceed a total return equal to the endowment's spending rate plus the Consumer Price Index (CPI) over a full market cycle, and to equal or exceed the relative return of a static, blended market index benchmark as determined by the endowment's strategic asset allocation targets.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 ENDOWMENT (CONTINUED)

Spending Policy

In order to provide an ongoing stream of income to support the Foundation's research activities, a percentage of the portfolio is distributed annually and appropriated to the Foundation's operating budget. The Foundation utilizes a moving average method of determining year-to-year spending in order to smooth distributions from the endowment. For purposes of determining the endowment's value, a three-year moving average of the endowment's quarterly fair market value will be applied (once the endowment has existed for more than three years).

The spending calculation is made annually and was 4% for the fiscal year ending June 30, 2017. In establishing this policy, the Foundation considered the long-term expected returns on its endowment investments. Accordingly, over the long term, the Foundation expects the current spending policy will allow its endowment to retain its original corpus.

Volatility of Returns

The Foundation understands that in order to achieve the endowment's investment objectives, the endowment will experience volatility of returns and fluctuations in market value. It further understands that the endowment could experience significant market value losses in any one-year period, but expects that losses over a full market cycle (7 to 10 years) to be a low probability. Therefore, the Foundation supports an investment strategy that minimizes the probability of large losses while acknowledging that the endowment's total return objective is its primary concern, and there is no guarantee that the endowment will not sustain larger than expected short-term losses in value.

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</u>
Donor Restricted Endowment Funds:				
James M. and Lucille Kemp Carnes Family Endowment	\$ -	\$ 33,093	\$ 1,000,000	\$ 1,033,093
Board-Designated Endowment Funds:				
Laverne H. Duvall Endowment	1,927,341	-	-	1,927,341
Total Funds	<u>\$ 1,927,341</u>	<u>\$ 33,093</u>	<u>\$ 1,000,000</u>	<u>\$ 2,960,434</u>

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 ENDOWMENT (CONTINUED)

Changes in endowment net assets for the fiscal year ended June 30, 2017 :

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	\$ 1,745,952	\$ 27,055	\$ 1,000,000	\$ 2,773,007
Investment Return:				
Investment Income	55,359	34,804	-	90,163
Net Appreciation	135,326	85,077	-	220,403
Investment Fees	(9,296)	(5,844)	-	(15,140)
Net	<u>181,389</u>	<u>114,037</u>	-	295,426
Appropriation of Endowment Assets for Expenditure	-	(108,000)	-	(108,000)
Net Assets - End of Year	<u>\$ 1,927,341</u>	<u>\$ 33,092</u>	<u>\$ 1,000,000</u>	<u>\$ 2,960,433</u>

Endowment net asset composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds:				
James M. and Lucille Kemp Carnes Family Endowment	\$ -	\$ 27,055	\$ 1,000,000	\$ 1,027,055
Board-Designated Endowment Funds:				
Laverne H. Duvall Endowment	1,745,952	-	-	1,745,952
Total Funds	<u>\$ 1,745,952</u>	<u>\$ 27,055</u>	<u>\$ 1,000,000</u>	<u>\$ 2,773,007</u>

Changes in endowment net assets for the fiscal year ended June 30, 2016 :

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	\$ -	\$ -	\$ -	\$ -
Investment Return:				
Investment Income	4,513	2,657	-	7,170
Net Appreciation	44,259	26,058	-	70,317
Investment Fees	(2,820)	(1,660)	-	(4,480)
Net	<u>45,952</u>	<u>27,055</u>	-	73,007
Contributions	-	-	1,000,000	1,000,000
Net Assets Designated	1,700,000	-	-	1,700,000
Appropriation of Endowment Assets for Expenditure	-	-	-	-
Net Assets - End of Year	<u>\$ 1,745,952</u>	<u>\$ 27,055</u>	<u>\$ 1,000,000</u>	<u>\$ 2,773,007</u>

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 11 ALLOCATION OF JOINT COSTS

The Foundation conducts activities which incur joint costs not specifically related to any one component of its activities. Those costs include direct mail campaigns and other similar activities. The cost of conducting those activities totaled \$72,613 and \$109,012 for the years ended June 30, 2017 and 2016, respectively. These joint costs were allocated as follows:

	2017	2016
Development	\$ 43,227	\$ 64,837
Awareness and Advocacy	22,040	33,131
Research	7,346	11,044
Total	<u>\$ 72,613</u>	<u>\$ 109,012</u>

NOTE 12 DEFERRED ANNUITY

The Foundation provides its employees with a tax-deferred annuity (the Plan) under the provisions of Internal Revenue Code Section 403(b). Contributions to the Plan are calculated at 7.5% of eligible employees' salaries. Contributions to the Plan for the years ended June 30, 2017 and 2016 amounted to \$127,583 and \$145,546, respectively.

NOTE 13 CONTRACTUAL SERVICES

The Foundation contracted with ADP Totalsource, Inc. (ADP) in a client service agreement effective August 1, 2014 to engage in a co-employment relationship with the Foundation. ADP provides personnel management services to the Foundation's employees including payment of salaries, wages, payroll taxes, employee benefits, and procurement of workers' compensation insurance, and administration of claims. The Foundation paid \$2,589,959 and \$2,541,761 including salaries, benefits, and services to ADP for the year ended June 30, 2017 and 2016, respectively.

NOTE 14 CONCENTRATIONS

Approximately 76% of the Foundation's pledges receivable at June 30, 2017 were from three donors. Approximately 74% of the Foundation's pledges receivable at June 30, 2016 were from three donors.

The Foundation maintains cash balances at one bank. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to specified limits. The Foundation had uninsured balances totaling \$81,145 and \$-0- at June 30, 2017 and 2016, respectively.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 15 CONTINGENCIES

The Foundation's investment portfolio is subject to significant fluctuations in its value. Because the values of individual investments fluctuate with market conditions, the amount of investment gains or losses that the Foundation will recognize in its future financial statements, if any, cannot be determined.

A legal action has arisen and is now pending against the Foundation. The Foundation has obtained legal counsel and intends to defend itself in the matter. Due to being in preliminary stages, the amount of potential liability, if any, cannot be reasonably estimated.

NOTE 16 SUBSEQUENT EVENTS

Management evaluated subsequent events through October 10, 2017, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2017, but prior to October 10, 2017 that provided additional evidence about conditions that existed at June 30, 2017, have been recognized in the financial statements for the year ended June 30, 2017.

NOTE 17 RECLASSIFICATIONS

Certain reclassifications of prior year's amounts have been made to conform to the presentation adopted for 2016. These reclassifications had no effect on previously reported earnings or net assets.