

PKD Foundation

Independent Auditor's Report and Financial Statements

June 30, 2021 and 2020



PKD Foundation
June 30, 2021 and 2020

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Independent Auditor's Report

Board of Directors
PKD Foundation
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of PKD Foundation, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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.

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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2020 financial statements were audited by other auditors, and their report thereon, dated October 26, 2020, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

BKD, LLP

Kansas City, Missouri
October 28, 2021

PKD Foundation
Statements of Financial Position
June 30, 2021 and 2020

Assets

	<u>2021</u>	<u>2020</u>
Current Assets		
Cash	\$ 1,842,740	\$ 837,660
Contributions receivable - net of allowance; 2021 - \$10,100 and 2020 - \$247	1,012,578	1,022,553
Other receivables	78,387	53,985
Trust held by others	857,095	-
Prepaid expenses	<u>274,717</u>	<u>246,080</u>
Total current assets	<u>4,065,517</u>	<u>2,160,278</u>
Investments	<u>20,891,164</u>	<u>17,098,665</u>
Property and Equipment, net	<u>477,856</u>	<u>682,339</u>
Other Assets		
Contributions receivable	243,469	953,017
Lease deposit	<u>15,533</u>	<u>15,533</u>
Total other assets	<u>259,002</u>	<u>968,550</u>
Total assets	<u><u>\$ 25,693,539</u></u>	<u><u>\$ 20,909,832</u></u>

Liabilities and Net Assets

	<u>2021</u>	<u>2020</u>
Current Liabilities		
Current maturities of long-term debt	\$ 203,343	\$ 283,164
Accounts payable	46,614	293,071
Accrued expenses	176,672	104,028
Research grants payable	300,000	400,000
Deferred revenue	1,802,605	1,441,378
Deferred rent	30,171	24,911
	<u>2,559,405</u>	<u>2,546,552</u>
Long-Term Debt	<u>521,102</u>	<u>470,315</u>
Deferred Rent	<u>63,363</u>	<u>92,582</u>
Total liabilities	<u>3,143,870</u>	<u>3,109,449</u>
Net Assets		
Without donor restrictions		
Undesignated	541,698	400,493
Board designated	5,721,207	4,230,361
	<u>6,262,905</u>	<u>4,630,854</u>
With donor restrictions		
Perpetual in natue	1,000,000	1,000,000
Purpose restrictions	13,173,622	10,193,959
Time-restricted for future periods	2,113,142	1,975,570
	<u>16,286,764</u>	<u>13,169,529</u>
Net assets with donor restrictions	<u>16,286,764</u>	<u>13,169,529</u>
Total net assets	<u>22,549,669</u>	<u>17,800,383</u>
Total liabilities and net assets	<u>\$ 25,693,539</u>	<u>\$ 20,909,832</u>

PKD Foundation
Statements of Activities
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Contributions	\$ 5,940,276	\$ 1,395,899	\$ 7,336,175	\$ 3,984,010	\$ 11,667,047	\$ 15,651,057
Gifts in-kind	476,610	-	476,610	448,859	-	448,859
Other income	461,769	-	461,769	3,372	-	3,372
Net investment return	7,141	1,187,547	1,194,688	224,364	16,603	240,967
Net unrealized gains on investments	-	2,609,201	2,609,201	142,307	11,981	154,288
Satisfaction of purpose restrictions	995,889	(995,889)	-	1,580,112	(1,580,112)	-
Satisfaction of time restrictions	1,079,523	(1,079,523)	-	1,182,479	(1,182,479)	-
	<u>8,961,208</u>	<u>3,117,235</u>	<u>12,078,443</u>	<u>7,565,503</u>	<u>8,933,040</u>	<u>16,498,543</u>
Total revenues, gains and other support						
	<u>8,961,208</u>	<u>3,117,235</u>	<u>12,078,443</u>	<u>7,565,503</u>	<u>8,933,040</u>	<u>16,498,543</u>
Expenses						
Program services						
Research	2,988,425	-	2,988,425	2,873,556	-	2,873,556
Education and support	1,412,766	-	1,412,766	1,135,988	-	1,135,988
Awareness and advocacy	1,244,436	-	1,244,436	1,554,295	-	1,554,295
	<u>5,645,627</u>	<u>-</u>	<u>5,645,627</u>	<u>5,563,839</u>	<u>-</u>	<u>5,563,839</u>
Total program services						
	<u>5,645,627</u>	<u>-</u>	<u>5,645,627</u>	<u>5,563,839</u>	<u>-</u>	<u>5,563,839</u>
Administrative	846,381	-	846,381	835,062	-	835,062
Development	837,149	-	837,149	1,053,315	-	1,053,315
	<u>1,683,530</u>	<u>-</u>	<u>1,683,530</u>	<u>1,888,377</u>	<u>-</u>	<u>1,888,377</u>
Total support services						
	<u>1,683,530</u>	<u>-</u>	<u>1,683,530</u>	<u>1,888,377</u>	<u>-</u>	<u>1,888,377</u>
Total expenses	<u>7,329,157</u>	<u>-</u>	<u>7,329,157</u>	<u>7,452,216</u>	<u>-</u>	<u>7,452,216</u>
Change in Net Assets	1,632,051	3,117,235	4,749,286	113,287	8,933,040	9,046,327
Net Assets, Beginning of Year	4,630,854	13,169,529	17,800,383	4,517,567	4,236,489	8,754,056
Net Assets, End of Year	<u>\$ 6,262,905</u>	<u>\$ 16,286,764</u>	<u>\$ 22,549,669</u>	<u>\$ 4,630,854</u>	<u>\$ 13,169,529</u>	<u>\$ 17,800,383</u>

PKD Foundation
Statements of Functional Expenses
Years Ended June 30, 2021 and 2020

	2021					
	Research	Education and Support	Awareness and Advocacy	Administrative	Development	Total Expenses
Expenses						
Salaries and benefits	\$ 618,373	\$ 679,976	\$ 732,364	\$ 562,505	\$ 519,041	\$ 3,112,259
Travel and meetings	7,500	495	344	1,577	-	9,916
Printing, postage and telephone	30,803	27,276	64,423	33,077	24,399	179,978
Office supplies	165	-	-	1,617	87	1,869
Dues, fees, publication and professional development	2,328	410	1,680	5,251	36,397	46,066
Equipment and software	36,010	126,334	40,981	33,824	30,344	267,493
Advertising and education	-	15,000	-	-	-	15,000
Professional fees	192,239	255,298	232,969	91,569	125,923	897,998
Bank and credit card fees	1,962	2,096	2,232	1,763	1,679	9,732
Occupancy	33,624	45,371	26,167	38,166	61,843	205,171
Insurance	3,280	4,426	2,553	4,841	6,033	21,133
Conferences, special events and awards	144,541	233,101	108,152	45,529	9,529	540,852
External research and development funding	1,789,504	-	-	-	-	1,789,504
Depreciation	128,096	22,983	32,571	11,799	21,874	217,323
Other expenses	-	-	-	14,863	-	14,863
Total functional expenses	\$ 2,988,425	\$ 1,412,766	\$ 1,244,436	\$ 846,381	\$ 837,149	\$ 7,329,157

	2020					
	Research	Education and Support	Awareness and Advocacy	Administrative	Development	Total Expenses
Expenses						
Salaries and benefits	\$ 704,850	\$ 540,089	\$ 720,582	\$ 667,800	\$ 460,694	\$ 3,094,015
Travel and meetings	71,746	13,140	43,545	-	46,242	174,673
Printing, postage and telephone	18,259	13,516	43,599	4,921	6,406	86,701
Office supplies	2,411	1,442	2,285	1,641	1,486	9,265
Dues, fees, publication and professional development	6,067	1,945	8,140	21,558	13,463	51,173
Equipment and software	12,138	25,323	-	-	13,581	51,042
Advertising and education	56,675	-	116,409	-	14,200	187,284
Professional fees	331,918	143,558	353,694	34,549	247,551	1,111,270
Bank and credit card fees	11,273	7,988	11,322	9,428	7,619	47,630
Occupancy	51,189	56,271	58,408	42,810	34,533	243,211
Insurance	4,602	3,261	4,622	3,849	3,105	19,439
Conferences, special events and awards	109	299,738	147,965	209	148,059	596,080
Grants and sponsorships	-	-	-	-	22,261	22,261
External research and development funding	1,572,096	-	-	-	-	1,572,096
Depreciation	30,223	29,717	43,724	48,297	34,115	186,076
Total functional expenses	\$ 2,873,556	\$ 1,135,988	\$ 1,554,295	\$ 835,062	\$ 1,053,315	\$ 7,452,216

PKD Foundation
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Change in net assets	\$ 4,749,286	\$ 9,046,327
Items not requiring (providing) cash		
Depreciation	217,323	186,076
Net realized and unrealized gains on investments	(3,291,719)	(100,135)
Debt forgiveness	(398,695)	-
Changes in		
Contributions receivable	719,523	913,015
Other receivables	(24,402)	(27,837)
Trust held by others	(857,095)	-
Prepaid expenses	(28,637)	(231,799)
Accounts payable and accrued expenses	(173,813)	193,459
Research grants payable	(100,000)	400,000
Deferred revenue	361,227	441,378
Deferred rent	(23,959)	(19,652)
	<u>1,149,039</u>	<u>10,800,832</u>
Investing Activities		
Proceeds from disposition of investments	1,170,406	15,551,572
Purchases of investments	(1,671,186)	(26,188,577)
Purchases of property and equipment	(12,840)	(128,299)
	<u>(513,620)</u>	<u>(10,765,304)</u>
Finance Activities		
Proceeds from issuance of long-term debt	483,385	397,800
Principal payments on capital lease obligations	(113,724)	(155,946)
	<u>369,661</u>	<u>241,854</u>
Increase in Cash	1,005,080	277,382
Cash, Beginning of Year	<u>837,660</u>	<u>560,278</u>
Cash, End of Year	<u>\$ 1,842,740</u>	<u>\$ 837,660</u>
Supplemental Cash Flows Information		
Interest paid	\$ 5,201	\$ 895

PKD Foundation

Notes to the Financial Statements

June 30, 2021 and 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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 2018, the Foundation adopted a new vision statement, “#endPKD” and a new mission statement, “WE GIVE HOPE. We fund research, advocate for patients and build a community for all impacted by PKD.”

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.

Program Services

Research

Since its founding in 1982, the Foundation has invested more than \$50 million in research, clinical and scientific grants, awards, fellowships and scientific meetings, making it the largest private funder of PKD research. The Foundation’s financial commitment over the years has seen results on a local, national and even global level, including initiating funding for young investigators from around the world; supporting innovative research ideas; and providing seed funding to research to allow researchers world-wide to apply for larger National Institute of Health (NIH) grants.

Initiatives included in research are outlined below:

Research Grants: Support for basic laboratory research aimed at increasing understanding of the genetic and pathological processes involved in PKD as well as research with an obvious or direct potential to accelerate the development of potential therapies.

Research Fellowships: Support and recognize early-career scientists whose achievements and potential identify them as rising stars – the next generation of scientific leaders in PKD research. The fellowships aim to attract promising trainees who will obtain significant research experience as they initiate and – we hope – spend long and productive careers in PKD research.

PKD Outcomes Consortium Project (PKDOC): A significant collaboration between the Foundation, Critical Path Institute, representatives of the pharmaceutical industry, PKD clinicians and the U.S. Food and Drug Administration (FDA). It was created to facilitate clinical trial development for PKD therapies by establishing a clear regulatory pathway for the pharmaceutical industry to evaluate the effectiveness of potential treatments.

PKD Foundation

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June 30, 2021 and 2020

Autosomal Dominant Polycystic Kidney Disease (ADPKD) Registry: An online, direct-to-patient, longitudinal Registry for individuals diagnosed with ADPKD in the United States. The Registry also provides targeted clinical study recruitment for both academic and industry-sponsored studies in patients.

Education and Support

The Foundation supports the PKD community through more than 55 volunteer-led chapters across the United States. Chapters provide meaningful opportunities for the local community to gather together to learn from experts or in support of each other. 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 over \$33 million since 2000.

On a national level, the Foundation empowers PKD patients and caregivers to manage PKD while maintaining a high quality of life. The Foundation provides resources across the continuum of disease progression for patients, caregivers, parents, etc. Resources include webinars, enduring webcasts, videos, a comprehensive website (pkdcure.org/education), handbooks and other print materials. The annual PKD national conference (PKDCon) is the Foundation's largest education event bringing together the entire PKD community including, patients, caregivers, volunteers, researchers and clinicians.

Awareness and Advocacy

The Foundation uses marketing to increase disease awareness, promote the Foundation's services and inspire the public to support the Foundation's mission. Marketing materials include *PKD Life* magazine, a monthly email newsletter, social media, the PKD Blog and pkdcure.org. In addition, Foundation representatives and volunteers directly engage legislators to encourage support of legislation that increases funding for and awareness of PKD. The Foundation advocates for PKD patients in policymaking, drug development and regulatory decision-making at the state and federal level. The Foundation's goals are to raise awareness and further legislation, regulation and federal funding opportunities that improve the lives of everyone in the PKD community.

Use of 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 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. Actual results could differ from those estimates.

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Notes to the Financial Statements
June 30, 2021 and 2020

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. Uninvested cash and cash equivalents included in investment accounts, including endowment accounts, are not considered to be cash and cash equivalents. At June 30, 2021 and 2020, cash equivalents consisted primarily of money market accounts with brokers.

At June 30, 2021, the Foundation's cash accounts exceeded federally insured limits by approximately \$1,604,000.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as revenue with donor restrictions and then released from restriction. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment

Property and equipment acquisitions over \$1,500 are stated at cost, less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Furniture, fixtures and equipment	5 years
Computer hardware and software	3 years

PKD Foundation
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Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2021 and 2020.

Deferred Revenue

Revenue from grants and donations is deferred and recognized over the periods to which the revenues relate.

Deferred Rent

For lease agreements that provide for escalating rent payments or free-rent occupancy periods, the Foundation recognized rent expense on the straight-line basis over the noncancelable lease term and option renewal periods where failure to exercise such option would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably 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.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor imposed restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The board of directors has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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Contributions

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Foundation overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
<i>Unconditional gifts, with or without restriction</i>	
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions. Conditional contributions which are received in advance of the condition being met are recorded as a deferred revenue.

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Notes to the Financial Statements
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Contributed Services and In-kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions of goods and services. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by the same amount. Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. For the years ended June 30, 2021 and 2020, in-kind contributions totaled approximately \$477,000 and \$449,000, respectively.

Grants

Grant expenses are recorded when the Foundation notified the recipient of their unconditional promise to give, which is when the grant is paid. Grants authorized and unpaid at year end are reported as liabilities in the statements of financial position. Grants payable for the years ended June 30, 2021 and 2020 were \$300,000 and \$400,000, respectively, and were expected to be paid within one year.

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on the estimate of time spent on each area and other methods.

Paycheck Protection Program Loans

The Foundation received two Paycheck Protection Program loans established by the CARES Act and other subsequent legislation provided by the Small Business Administration (SBA). The Foundation has elected to account for the funding as long-term debt by applying ASC Topic 470, *Debt*, Subtopic 405-20, *Liabilities-Extinguishments of Liabilities*. The loans will remain a liability until forgiven, and the Foundation has been legally released or repays the loans. If the loans are forgiven, the Foundation will reduce the liability by the amount forgiven and record a gain on extinguishment. See further discussion of Paycheck Protection Program loans in *Note 6*.

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Notes to the Financial Statements
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Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Contributions Receivable

Contributions receivable includes promises to give at discount rates of 2 percent and 0.17 percent for the years ended June 30, 2021 and 2020, respectively, as follows:

	2021	2020
Due within one year	\$ 1,022,678	\$ 1,022,800
Due within one to five years	252,509	955,609
	1,275,187	1,978,409
Less		
Allowance for uncollectible contributions	10,100	247
Unamortized discount	9,040	2,592
	\$ 1,256,047	\$ 1,975,570

Note 3: Conditional Gifts

The Foundation has received a conditional promise to give a total of \$2,000,000 over a five-year period upon obtaining \$10,000,000 in unconditional promises to give to the leadership campaign as of the last payment made by the donor. As of June 30, 2021 and 2020, the Foundation had received \$1,800,000 and \$1,400,000, respectively, of the conditional promise included as deferred revenue within the statements of financial position.

In September 2021, the Foundation received correspondence from the donor that the condition relating to this gift was removed. Subsequent to year end, the Foundation recognized the \$2,000,000 contribution as a result of the release of condition.

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Note 4: Beneficial Interest in Trust

During 2021, the Foundation has been named as an irrevocable beneficiary of a trust held and administered by an independent trustee. The Foundation's beneficial interest in the trust is included as trust held by others in the statements of financial position for the remaining estimated value that is due to the Foundation per the trustee and the trust agreement. The estimated value of the expected future cash flows is \$857,000 which represents the remaining fixed portion of the trust assets due to the Foundation at June 30, 2021. The distribution received from the trust of \$380,000 during the year ended June 30, 2021 is recorded as contributions within the statements of activities.

Note 5: Property and Equipment

Property and equipment at June 30, 2021 and 2020, consists of:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 69,356	\$ 69,356
Equipment and software	898,468	1,041,122
	<u>967,824</u>	<u>1,110,478</u>
Accumulated depreciation	489,968	428,139
	<u>\$ 477,856</u>	<u>\$ 682,339</u>

Note 6: Long-Term Debt

Long-term debt at June 30, 2021 and 2020, consists of:

	<u>2021</u>	<u>2020</u>
Notes payable (A)	\$ -	\$ 397,800
Notes payable (B)	483,385	-
Capital lease obligations (C)	241,060	355,679
	<u>724,445</u>	<u>753,479</u>
Less current maturities	203,343	283,164
	<u>\$ 521,102</u>	<u>\$ 470,315</u>

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- (A) Notes payable received on April 10, 2020 as part of the SBA’s Paycheck Protection Program to be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. Monthly payments of principal and interest through April 10, 2022, with interest rate of 1 percent, forgiveness subject to approval by the SBA. In May 2021, the Foundation received formal approval that the PPP loan and accrued interest had been forgiven in full by the SBA.
- (B) Notes payable received on January 25, 2021 as part of the SBA’s Paycheck Protection Program to be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. Monthly payments of principal are subject to the Paycheck Protection Program Rules, with interest rate of 1 percent, forgiveness subject to approval by the SBA. In August 2021, the Foundation received formal approval that the PPP loan and accrued interest had been forgiven in full by the SBA.
- (C) Capital lease obligations includes software under capital lease expiring at various dates through December 2023, including imputed interest ranging from 1.8 percent to 5.0 percent; secured by the underlying software.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2021 are:

<u>Years ending June 30</u>	<u>Long-term Debt (Excluding Leases)</u>	<u>Capital Lease Obligations</u>
2022	\$ 117,035	\$ 90,000
2023	280,884	90,000
2024	<u>85,466</u>	<u>67,500</u>
	<u>\$ 483,385</u>	247,500
Less amount representing interest		<u>6,440</u>
Present value of future minimum lease payments		<u>\$ 241,060</u>

Property and equipment includes the following software under capital lease at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Software under capital lease	\$ 450,000	\$ 686,491
Less accumulated depreciation	<u>202,500</u>	<u>249,370</u>
	<u>\$ 247,500</u>	<u>\$ 437,121</u>

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Note 7: Operating Leases

The Foundation has entered into a noncancellable operating lease for office space, which expires in February 2024. This lease requires the Foundation to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2021, were:

2022	\$ 228,350
2023	233,609
2024	<u>159,100</u>
Total minimum lease payments	<u><u>\$ 621,059</u></u>

Rental expense for all operating leases was approximately \$473,000 and \$294,000 for the years ended June 30, 2021 and 2020, respectively.

Note 8: Defined Contribution Plan

The Foundation has a defined contribution plan that covers substantially all full-time employees. For the years ended June 30, 2021 and 2020, the Foundation made discretionary contributions equal to 9.5 percent of participant's eligible gross wages. The retirement plan expense was \$191,000 and \$210,000 for the years ended June 30, 2021 and 2020, respectively.

Note 9: Contractual Services

The Foundation has contracted with ADP Totalsource, Inc. (ADP) as part of 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 has paid approximately \$2,889,000 and \$2,780,000 to ADP as part of this agreement for the years ended June 30, 2021 and 2020, respectively.

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Note 10: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30 are restricted for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose		
Research and drug repurposing	\$ -	\$ 824,667
Kaplan International prizes for PKD research	1,319	1,319
	<u>1,319</u>	<u>825,986</u>
Subject to the passage of time		
Pledges receivable	1,256,047	1,975,570
Trust held by others	857,095	-
	<u>2,113,142</u>	<u>1,975,570</u>
Endowments		
Subject to appropriation and expenditure for specified purpose		
Research and drug repurposing	12,820,023	9,015,693
Autosomal recessive polycystic kidney disease (ARPKD) research	352,280	352,280
	<u>13,172,303</u>	<u>9,367,973</u>
Not subject to spending policy and appropriation		
James M. and Lucille Kemp Carnes Family Endowment	<u>1,000,000</u>	<u>1,000,000</u>
	<u>1,000,000</u>	<u>1,000,000</u>
Total endowments	<u>14,172,303</u>	<u>10,367,973</u>
	<u>\$ 16,286,764</u>	<u>\$ 13,169,529</u>

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Net Assets Without Donor Restrictions

Net assets without donor restrictions at June 30 have been designated for the following purposes:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 541,698	\$ 400,493
Designated by the Board for research	921,421	-
Designated by the Board for endowment	<u>4,799,786</u>	<u>4,230,361</u>
Net assets without donor restrictions	<u>\$ 6,262,905</u>	<u>\$ 4,630,854</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2021</u>	<u>2020</u>
Expiration of time restrictions	\$ 1,079,523	\$ 1,182,479
Satisfaction of purpose restrictions		
Research and drug repurposing	<u>995,889</u>	<u>1,580,112</u>
	<u>\$ 2,075,412</u>	<u>\$ 2,762,591</u>

Note 11: Endowment

The Foundation's board of directors is subject to the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). As a result, the Foundation classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation

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5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The Foundation's endowment consists of three individual funds established for a variety of purposes. The endowment includes both donor-restricted and board designated endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The composition of net assets by type of endowment fund at June 30, 2021 and 2020, was:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,799,786	\$ -	\$ 4,799,786
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	10,339,390	10,339,390
Accumulated investment gains	-	3,832,913	3,832,913
Total endowment funds	<u>\$ 4,799,786</u>	<u>\$ 14,172,303</u>	<u>\$ 18,972,089</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 4,230,361	\$ -	\$ 4,230,361
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	10,339,390	10,339,390
Accumulated investment gains	-	28,583	28,583
Total endowment funds	<u>\$ 4,230,361</u>	<u>\$ 10,367,973</u>	<u>\$ 14,598,334</u>

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Change in endowment net assets for the fiscal years ended June 30, 2021 and 2020, was:

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Endowment net assets, beginning of year	\$ 4,230,361	\$ 10,367,973	\$ 14,598,334
Investment return, net	-	3,804,330	3,804,330
Contributions	569,425	-	569,425
Endowment net assets, end of year	<u>\$ 4,799,786</u>	<u>\$ 14,172,303</u>	<u>\$ 18,972,089</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,597,077	\$ 1,000,000	\$ 4,597,077
Investment return, net	330,374	28,583	358,957
Contributions	302,910	9,339,390	9,642,300
Endowment net assets, end of year	<u>\$ 4,230,361</u>	<u>\$ 10,367,973</u>	<u>\$ 14,598,334</u>

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested assuming a moderate level of investment risk. The Foundation expects its endowment funds to provide an average rate of return of approximately 4 percent annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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The Foundation has a spending policy of appropriating for expenditure each year at a level that maintains the goal to have sufficient assets to meeting spending needs as they become due. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the Foundation’s objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 12: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021 and 2020, comprise the following:

	<u>2021</u>	<u>2020</u>
Total financial assets	\$ 24,068,338	\$ 19,965,880
Donor-imposed restrictions		
Restricted funds	2,114,461	2,801,556
Endowments	<u>14,172,303</u>	<u>10,367,973</u>
Net financial assets after donor-imposed restrictions	<u>7,781,574</u>	<u>6,796,351</u>
Internal designations		
Board-advised funds	921,421	-
Quasi-endowments	<u>4,799,786</u>	<u>4,230,361</u>
Financial assets available to meet cash needs for expenditures within one year	<u>\$ 2,060,367</u>	<u>\$ 2,565,990</u>

The Foundation’s endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. To achieve these targets, the Foundation forecasts its future cash flows and monitors its liquidity and reserves regularly.

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Note 13: Investments

	<u>2021</u>	<u>2020</u>
Certificates of deposit	\$ -	\$ 75,712
Money market mutual funds		
Fidelity Government Portfolio Class III	1,346,931	1,946,787
Other money market mutual funds	827,735	382,993
Mutual funds invested in equity securities		
iShares Core MSCI EAFE ETF	1,288,939	1,337,887
Vanguard Growth ETF	1,583,765	1,771,117
Vanguard Value ETF Index	1,513,984	1,399,837
Other mutual funds invested in equity securities	2,103,498	3,416,823
Mutual funds invested in debt securities	3,289,134	1,248,372
Mutual funds invested in alternative investments	707,382	194,382
Common stock	6,115,378	3,527,062
Corporate Bonds	726,785	876,497
Governmental securities	<u>1,387,633</u>	<u>921,196</u>
 Total investments	 <u>\$ 20,891,164</u>	 <u>\$ 17,098,665</u>

Total investment return is comprised of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 512,170	\$ 295,120
Realized gains (losses) on sale of investments	682,518	(54,153)
Unrealized gains on securities	<u>2,609,201</u>	<u>154,288</u>
 Total investment income	 <u>\$ 3,803,889</u>	 <u>\$ 395,255</u>

Note 14: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

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Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2021 and 2020:

	Fair Value Measurements Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2021				
Money market mutual funds				
Fidelity Government Portfolio Class III	\$ 1,346,931	\$ 1,346,931	\$ -	\$ -
Other money market mutual funds	827,735	827,735	-	-
Mutual funds invested in equity securities				
iShares Core MSCI EAFE ETF	1,288,939	1,288,939	-	-
Vanguard Growth ETF	1,583,765	1,583,765	-	-
Vanguard Value ETF Index	1,513,984	1,513,984	-	-
Other mutual funds invested in equity securities	2,103,498	2,103,498	-	-
Mutual funds invested in debt securities	3,289,134	3,289,134	-	-
Mutual funds invested in alternative investments	707,382	707,382	-	-
Common stock	6,115,378	6,115,378	-	-
Corporate Bonds	726,785	-	726,785	-
Governmental securities	1,387,633	-	1,387,633	-
Total long-term investments	<u>20,891,164</u>	<u>18,776,746</u>	<u>2,114,418</u>	<u>-</u>
Trust held by others	<u>857,095</u>	<u>-</u>	<u>857,095</u>	<u>-</u>
	<u>\$ 21,748,259</u>	<u>\$ 18,776,746</u>	<u>\$ 2,971,513</u>	<u>\$ -</u>

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	Fair Value Measurements Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2020				
Money market mutual funds				
Fidelity Government Portfolio Class III	\$ 1,946,787	\$ 1,946,787	\$ -	\$ -
Other money market mutual funds	382,993	382,993	-	-
Mutual funds invested in equity securities				
iShares Core MSCI EAFE ETF	1,337,887	1,337,887	-	-
Vanguard Growth ETF	1,771,117	1,771,117	-	-
Vanguard Value ETF Index	1,399,837	1,399,837	-	-
Other mutual funds invested in equity securities	3,416,823	3,416,823	-	-
Mutual funds invested in debt securities	1,248,372	1,248,372	-	-
Mutual funds invested in alternative investments	194,382	194,382	-	-
Common stock	3,527,062	3,527,062	-	-
Corporate Bonds	876,497	-	876,497	-
Governmental securities	921,196	-	921,196	-
	<u>\$ 17,022,953</u>	<u>\$ 15,225,260</u>	<u>\$ 1,797,693</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2021.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

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Trust Held by Others

The fair value of the trusts held by others is estimated at the present value of the future distributions expected to be received over the term of the agreement, which is equivalent to the Foundation's beneficial interest in the fair value of the trust assets. Trusts held by others are classified within Level 2 of the hierarchy if the fair value of the underlying investments are determined through quoted market prices or other observable inputs and the Foundation expects to have the ability to redeem the trust assets in the near term.

Note 15: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

Approximately 17 percent and 60 percent of all contributions were received from one donor in 2021 and 2020, respectively.

Contributions Receivable

Approximately 59 percent and 61 percent of all contributions receivable were due from two donors at June 30, 2021 and 2020, respectively.

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least 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 the accompanying statements of financial position.

General Litigation

The Foundation is periodically subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Foundation. Events could occur that would change this estimate materially in the near term.

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COVID-19 Pandemic

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Foundation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Allowance for Uncollectible Contributions Receivable

Estimates associated with the allowance for uncollectible receivables is discussed in *Note 1*.

Functional Allocation of Expenses

Estimates used to allocate certain costs on a functional basis is discussed in *Note 1*.

Note 16: Subsequent Events

Subsequent events have been evaluated through October 28, 2021, which is the date the financial statements were available to be issued.

Note 17: Future Change in Accounting Principle

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Foundation is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.