

PKD FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

**PKD FOUNDATION
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
STATEMENTS OF CASH FLOWS	5
STATEMENTS OF FUNCTIONAL EXPENSES	6
NOTES TO FINANCIAL STATEMENTS	8

INDEPENDENT AUDITORS' REPORT

Board of Trustees
PKD Foundation
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of PKD Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 Trustees
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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Joseph, Missouri
October 7, 2016

PKD FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 112,888	\$ 618,526
Pledges Receivable - Net	251,534	473,862
Other Receivables	92,246	105,622
Inventory	32,772	-
Prepaid Expenses	21,327	20,512
Deposits	27,658	4,934
Total Current Assets	538,425	1,223,456
INVESTMENTS	4,826,556	4,925,411
PROPERTY AND EQUIPMENT		
Equipment and Software	398,200	369,641
Less: Accumulated Depreciation	207,314	229,112
Total Property and Equipment	190,886	140,529
OTHER ASSETS		
Long-Term Pledges Receivable - Net	123,890	164,346
Lease Deposit	15,533	22,589
Total Other Assets	139,423	186,935
 Total Assets	 \$ 5,695,290	 \$ 6,476,331
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable:		
Trade	\$ 255,103	\$ 141,872
Research Grants	166,666	500,000
Software Contract	42,156	42,156
Accrued Liabilities	225,243	215,703
Total Current Liabilities	689,168	899,731
LONG-TERM LIABILITIES		
Software Contract	-	42,156
Research Grants	166,667	-
Total Liabilities	855,835	941,887
NET ASSETS		
Unrestricted		
Operating	1,926,415	4,147,878
Board Designated	1,745,952	-
Total Unrestricted Net Assets	3,672,367	4,147,878
Temporarily Restricted	167,088	386,566
Permanently Restricted	1,000,000	1,000,000
Total Net Assets	4,839,455	5,534,444
 Total Liabilities and Net Assets	 \$ 5,695,290	 \$ 6,476,331

See accompanying Notes to Financial Statements.

PKD FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016					2015				
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND PUBLIC SUPPORT										
Contributions	\$ 3,253,308	\$ 1,891,541	\$ 397,437	\$ -	\$ 5,542,286	\$ 3,177,642	\$ 1,874,464	\$ 1,241,492	\$ 1,000,000	\$ 7,293,598
Gifts-in-Kind	426,950	327,830	-	-	754,780	276,136	268,879	-	-	545,015
Special Events	342,993	-	-	-	342,993	134,431	-	-	-	134,431
Less Direct Costs	(60,366)	-	-	-	(60,366)	(54,452)	-	-	-	(54,452)
Miscellaneous Income	9,942	-	-	-	9,942	89	-	-	-	89
Investment Income - Net	17,578	4,513	2,657	-	24,748	7,014	-	-	-	7,014
Unrealized gain on investments, net	(4,083)	44,259	26,058	-	66,234	-	-	-	-	-
Satisfaction of Purpose Restrictions	648,450	(2,820)	(645,630)	-	-	1,974,778	-	(1,974,778)	-	-
Net Assets Designated	(1,700,000)	1,700,000	-	-	-	-	-	-	-	-
Total Revenues, Gains, and Public Support	2,934,772	3,965,323	(219,478)	-	6,680,617	5,515,638	2,143,343	(733,286)	1,000,000	7,925,695
EXPENSES										
Program Services:										
Research	1,863,053	665,811	-	-	2,528,864	1,966,442	535,836	-	-	2,502,278
Education and Support	673,337	1,250,466	-	-	1,923,803	414,267	1,242,791	-	-	1,657,058
Awareness and Advocacy	1,068,900	241,454	-	-	1,310,354	861,761	316,178	-	-	1,177,939
Total Program Services	3,605,290	2,157,731	-	-	5,763,021	3,242,470	2,094,805	-	-	5,337,275
Supporting Services:										
Administrative	970,363	-	-	-	970,363	895,403	-	-	-	895,403
Development	580,582	61,640	-	-	642,222	632,966	48,538	-	-	681,504
Total Supporting Services	1,550,945	61,640	-	-	1,612,585	1,528,369	48,538	-	-	1,576,907
Total Expenses	5,156,235	2,219,371	-	-	7,375,606	4,770,839	2,143,343	-	-	6,914,182
CHANGES IN NET ASSETS	(2,221,463)	1,745,952	(219,478)	-	(694,989)	744,799	-	(733,286)	1,000,000	1,011,513
Net Assets - Beginning of Year	4,147,878	-	386,566	1,000,000	5,534,444	3,403,079	-	1,119,852	-	4,522,931
NET ASSETS - END OF YEAR	<u>\$ 1,926,415</u>	<u>\$ 1,745,952</u>	<u>\$ 167,088</u>	<u>\$ 1,000,000</u>	<u>\$ 4,839,455</u>	<u>\$ 4,147,878</u>	<u>\$ -</u>	<u>\$ 386,566</u>	<u>\$ 1,000,000</u>	<u>\$ 5,534,444</u>

See accompanying Notes to Financial Statements.

**PKD FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (694,989)	\$ 1,011,513
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	55,762	35,895
Loss (Gain) on Sale of Investments	6,985	-
Unrealized Gain on Investments	(66,234)	-
Contributions Restricted for Long-Term Purposes	-	(1,000,000)
(Increase) Decrease in Assets:		
Pledges Receivable - Net	262,784	608,076
Other Receivables	13,376	(14,373)
Inventory	(32,772)	-
Prepaid Expenses	(815)	11,595
Deposits	(15,668)	(3,345)
Increase (Decrease) in Liabilities:		
Accounts Payable - Trade	113,231	(142,171)
Research Grants Payable	(166,667)	500,000
Accrued Liabilities	9,540	(10,446)
Net Cash (Used in) Provided by Operating Activities	(515,467)	996,744
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	5,488,568	4,154,023
Purchases of Investments	(5,330,464)	(5,709,222)
Purchases of Property and Equipment	(106,119)	(18,400)
Net Cash Provided by (Used in) Investing Activities	51,985	(1,573,599)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Investment in Endowment	-	1,000,000
Payments on Software Contracts	(42,156)	(42,156)
Net Cash (Used in) Provided by Investing Activities	(42,156)	957,844
NET INCREASE IN CASH AND CASH EQUIVALENTS	(505,638)	380,989
Cash and Cash Equivalents - Beginning of Year	618,526	237,537
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 112,888	\$ 618,526
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and Equipment Purchased with Liabilities	\$ -	\$ 135,667

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	63,812	57,841	22,019	58,383	273,216
Printing/Postage/Telephone	7,276	40,855	86,878	23,820	43,231	202,060
Office Supplies	553	10,776	10,250	1,198	650	23,427
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	140,708	194,900	125,216	93,872	709,009
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	-	274,531	17,863	404	4,973	297,771
Grants and Sponsorships	1,740,056	-	-	-	-	1,740,056
External R&D Funding	168,381	-	-	-	-	168,381
Depreciation	3,093	14,027	34,597	932	3,113	55,762
Chapters	-	501,770	-	-	-	501,770
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
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

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	\$ 281,440	\$ 725,547	\$ 640,809	\$ 635,983	\$ 425,162	\$ 2,708,941
Travel and Meetings	45,546	48,551	54,926	24,021	61,342	234,386
Printing/Postage/Telephone	10,126	51,397	80,878	25,594	61,373	229,368
Office Supplies	646	3,195	3,239	1,259	1,331	9,670
Dues/Fees/Publications/ Professional Development	1,925	3,206	14,319	5,860	14,478	39,788
Equipment and Software	4,951	13,994	10,555	10,741	21,357	61,598
Advertising and Education	-	67,146	128,820	-	-	195,966
Professional Fees	124,880	57,076	132,842	46,762	47,220	408,780
Bank and Credit Card Fees	-	-	-	75,787	-	75,787
Occupancy	29,918	73,031	63,918	65,042	42,535	274,444
Insurance	1,024	2,499	2,187	2,225	1,455	9,390
Conferences/Special Events/Awards	1,000	182,256	17,797	139	3,692	204,884
Grants and Sponsorships	1,856,950	-	-	-	-	1,856,950
External R&D Funding	142,699	-	-	-	-	142,699
Depreciation and Amortization	1,173	3,524	27,649	1,990	1,559	35,895
Chapters	-	425,636	-	-	-	425,636
Total Expenses	<u>\$ 2,502,278</u>	<u>\$ 1,657,058</u>	<u>\$ 1,177,939</u>	<u>\$ 895,403</u>	<u>\$ 681,504</u>	<u>\$ 6,914,182</u>

See accompanying Notes to Financial Statements.

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PKD Foundation (the Foundation) was formed in 1982 as a Missouri not-for-profit 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.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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.

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.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Chapter Funds

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, 2016 or 2015.

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.

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.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2016 or 2015. The Foundation follows the standards for evaluating uncertain tax positions and has determined no liability should be recorded for uncertain tax positions.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Programs

The Foundation operates the following on-going programs:

Research

Since its founding in 1982, the Foundation has invested more than \$40 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, nearly 30 PKD Foundation-funded research projects are underway. Additionally, five potential treatments are in clinical trials, 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, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Programs (Continued)

Education and Support

The Foundation provides local services through its more than 60 volunteer-run Chapters across the country. 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 \$26 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.

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.

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2016 AND 2015

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

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

	June 30, 2016			
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level (1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
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	-	-
	<u>\$ 2,938,227</u>	<u>\$ 2,441,361</u>	<u>\$ 496,866</u>	<u>\$ -</u>

At June 30, 2015, all investments were held at cost.

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. For the year ended June 30, 2015, investments consisted of money market funds and certificates of deposit. 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, 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, 2016 AND 2015

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>

Investments at June 30, 2015 are as follows:

	Original Cost or Basis	Carrying Value	Excess (Deficiency) of Carrying Value Over Original Cost or Basis
Money Market Funds	\$ 2,724,411	\$ 2,724,411	\$ -
Certificates of Deposit	2,201,000	2,201,000	-
Total Investments	<u>\$ 4,925,411</u>	<u>\$ 4,925,411</u>	<u>\$ -</u>

Investment returns for the year ended June 30, 2015 are as follows:

Investment income	\$ 7,014
Total investment return	<u>\$ 7,014</u>
Investment fees	<u>\$ -</u>

NOTE 4 PLEDGES RECEIVABLE

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

	2016	2015
Total Pledges Receivable	\$ 383,214	\$ 668,132
Less: Unamortized Discount	4,110	11,654
Less: Allowance for Uncollectible Pledges	3,680	18,270
Net Pledges Receivable	<u>375,424</u>	<u>638,208</u>
Less: Net Pledges Receivable, Current Portion	251,534	473,862
Net Pledges Receivable, Long-Term	<u>\$ 123,890</u>	<u>\$ 164,346</u>

Interest was imputed in discounting long-term pledges receivable at rates ranging from 0.71% to 1.29% and 0.36 to 3% for the years ending June 30, 2016 and 2015, respectively.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 4 PLEDGES RECEIVABLE(CONTINUED)

Pledges are due in future years as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 255,214
2018	32,000
2019	32,000
2020	32,000
2021	12,000
Thereafter	20,000
Total	<u>\$ 383,214</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.

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:

	<u>2016</u>	<u>2015</u>
Total Research Grants Payable	\$ 333,333	\$ 500,000
Less: Net Research Grants Payable, Current Portion	166,666	500,000
Net Research Grants Payable, Long-Term	<u>\$ 166,667</u>	<u>\$ -</u>

Future scheduled payments on the grants are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 166,666
2018	166,667
Total	<u>\$ 333,333</u>

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 \$64,499 and \$22,343 at June 30, 2016 and 2015, respectively. Minimum future lease payments under the capital lease, at June 30, 2016, were \$42,156 due during the year ending June 30, 2017.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 6 LEASE COMMITMENTS (CONTINUED)

The Foundation leases office space under the terms of an operating lease that expires in February 2017. Minimum future lease payments under the lease, at June 30, 2016, were \$180,715 due during the year ending June 30, 2017.

Lease expense for the office space totaled \$284,948 and \$274,444 for the years ended June 30, 2016 and 2015, 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. Future lease payments under the lease are as follows for the years ended June 30:

Year Ending June 30,	Amount
2017	\$ 52,572
2018	161,470
2019	165,567
2020	169,663
2021	173,760
Thereafter	483,728
Total	\$ 1,206,760

NOTE 7 BOARD DESIGNATED NET ASSETS

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 was \$1,745,952 and \$0- at June 30, 2016 and 2015, respectively.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2016 and 2015:

	2016	2015
ADPKD Research & Drug Repurposing	\$ 102,536	\$ 167,319
Polycystic Liver Disease Research	37,497	175,497
Carnes Endowment Earnings	27,055	-
Patient Education Initiatives	-	33,836
ARPKD Research	-	7,414
Transplant-related Initiatives	-	2,500
Total	\$ 167,088	\$ 386,566

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 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.

NOTE 10 ENDOWMENT

The purpose of the Research Opportunity Fund and Named Endowments (collectively referred to as "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 ("board"). As required by generally accepted accounting principles, 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

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 ENDOWMENT (CONTINUED)

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 7-10 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.

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 3-year moving average of the endowment's quarterly fair market value will be applied (once the endowment has existed for more than 3 years).

The spending calculation is made annually and will be 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 1-year period, but expects that losses over a full market cycle (7-10 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.

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 ENDOWMENT (CONTINUED)

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>	-	<u>73,007</u>
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, 2016 AND 2015**

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 \$109,012 and \$87,309 for the years ended June 30, 2016 and 2015, respectively. These joint costs were allocated as follows:

	2016	2015
Development	\$ 64,837	\$ 51,473
Awareness and Advocacy	33,131	26,877
Research	11,044	8,959
Total	<u>\$ 109,012</u>	<u>\$ 87,309</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, 2016 and 2015 amounted to \$145,546 and \$136,883, respectively.

NOTE 13 CONTRACTUAL SERVICES

The Foundation contracted with Insperty in a client service agreement effective July 1, 2008 to engage in a co-employment relationship with the Foundation. Insperty provided 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 \$-0- and \$252,645 including salaries, benefits, and services to Insperty for the years ended June 30, 2016 and 2015, respectively. The Foundation terminated this agreement in August 2014.

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 \$2,541,761 and \$2,257,369 including salaries, benefits, and services to ADP for the year ended June 30, 2016 and 2015, respectively.

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 14 CONCENTRATIONS

Approximately 74% of the Foundation's pledges receivable at June 30, 2016 were from three donors. Approximately 64% of the Foundation's pledges receivable at June 30, 2015 were from four 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 \$-0- and \$392,252 at June 30, 2016 and 2015, respectively.

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.

NOTE 16 SUBSEQUENT EVENTS

Management evaluated subsequent events through October 7, 2016, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to October 7, 2016 that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the financial statements for the year ended June 30, 2016.