

PKD FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

**PKD FOUNDATION
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YEARS ENDED JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
PKD Foundation
Kansas City, Missouri

We have audited the accompanying financial statements of PKD Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
PKD Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PKD Foundation as of June 30, 2018 and 2017, 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
November 20, 2018

PKD FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 228,084	\$ 130,705
Pledges Receivable - Net	1,026,291	52,880
Other Receivables	12,287	51,290
Inventory	-	31,084
Prepaid Expenses	8,089	51,837
Deposits	16,958	3,695
Total Current Assets	1,291,709	321,491
INVESTMENTS	7,082,275	4,620,674
PROPERTY AND EQUIPMENT		
Equipment and Software	582,826	426,761
Less: Accumulated Depreciation	304,473	289,837
Total Property and Equipment	278,353	136,924
OTHER ASSETS		
Long-Term Pledges Receivable - Net	2,745,817	124,150
Lease Deposit	-	15,533
Total Other Assets	2,745,817	139,683
 Total Assets	 \$ 11,398,154	 \$ 5,218,772
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable:		
Trade	\$ 349,778	\$ 111,998
Research Grants	-	166,667
Lease Payable	58,590	-
Refundable Advances	600,000	-
Deferred Rent	6,434	2,337
Accrued Liabilities	171,020	131,089
Total Current Liabilities	1,185,822	412,091
LONG-TERM LIABILITIES		
Deferred Rent	84,529	90,963
Lease Payable	84,125	-
Total Liabilities	1,354,476	503,054
NET ASSETS		
Unrestricted		
Operating	837,974	1,626,441
Board-Designated	3,079,744	1,927,341
Total Unrestricted Net Assets	3,917,718	3,553,782
Temporarily Restricted	5,125,960	161,936
Permanently Restricted	1,000,000	1,000,000
Total Net Assets	10,043,678	4,715,718
 Total Liabilities and Net Assets	 \$ 11,398,154	 \$ 5,218,772

See accompanying Notes to Financial Statements.

PKD FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017					
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND PUBLIC SUPPORT										
Contributions	\$ 2,688,034	\$ 1,021,831	\$ 8,797,969	\$ -	\$ 12,507,834	\$ 2,942,891	\$ 1,984,860	\$ 437,591	\$ -	\$ 5,365,342
Gifts-in-Kind	562,974	-	-	-	562,974	298,560	192,323	-	-	490,883
Special Events	-	-	-	-	-	323,576	-	4,500	-	328,076
Less: Direct Costs	-	-	-	-	-	(74,212)	-	-	-	(74,212)
Miscellaneous Income	159,015	-	-	-	159,015	7,030	-	-	-	7,030
Investment Income - Net	31,868	86,686	35,609	-	154,163	24,423	46,064	28,960	-	99,447
Unrealized Gain (Loss) on Investments, Net	(8,719)	58,963	24,221	-	74,465	(12,362)	135,326	85,077	-	208,041
Satisfaction of Purpose Restrictions	2,684,803	(15,077)	(2,669,726)	-	-	561,280	-	(561,280)	-	-
Satisfaction of Time Restrictions	1,224,049	-	(1,224,049)	-	-	-	-	-	-	-
Total Revenues, Gains, and Public Support	7,342,024	1,152,403	4,964,024	-	13,458,451	4,071,186	2,358,573	(5,152)	-	6,424,607
EXPENSES										
Program Services:										
Research	2,575,555	-	-	-	2,575,555	1,640,203	544,296	-	-	2,184,499
Education and Support	1,305,749	-	-	-	1,305,749	341,473	932,518	-	-	1,273,991
Awareness and Advocacy	1,982,320	-	-	-	1,982,320	654,587	700,370	-	-	1,354,957
Total Program Services	5,863,624	-	-	-	5,863,624	2,636,263	2,177,184	-	-	4,813,447
Supporting Services:										
Administrative	956,524	-	-	-	956,524	971,301	-	-	-	971,301
Development	1,310,343	-	-	-	1,310,343	763,596	-	-	-	763,596
Total Supporting Services	2,266,867	-	-	-	2,266,867	1,734,897	-	-	-	1,734,897
Total Expenses	8,130,491	-	-	-	8,130,491	4,371,160	2,177,184	-	-	6,548,344
CHANGES IN NET ASSETS	(788,467)	1,152,403	4,964,024	-	5,327,960	(299,974)	181,389	(5,152)	-	(123,737)
Net Assets - Beginning of Year	1,626,441	1,927,341	161,936	1,000,000	4,715,718	1,926,415	1,745,952	167,088	1,000,000	4,839,455
NET ASSETS - END OF YEAR	<u>\$ 837,974</u>	<u>\$ 3,079,744</u>	<u>\$ 5,125,960</u>	<u>\$ 1,000,000</u>	<u>\$ 10,043,678</u>	<u>\$ 1,626,441</u>	<u>\$ 1,927,341</u>	<u>\$ 161,936</u>	<u>\$ 1,000,000</u>	<u>\$ 4,715,718</u>

See accompanying Notes to Financial Statements.

**PKD FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 5,327,960	\$ (123,737)
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	89,064	94,839
Gain on Sale of Investments	(70,026)	(41,143)
Unrealized Gain on Investments	(74,465)	(208,041)
(Increase) Decrease in Assets:		
Pledges Receivable - Net	(3,595,078)	198,394
Other Receivables	39,003	40,956
Inventory	31,084	1,688
Prepaid Expenses	43,748	(30,510)
Deposits	2,270	23,963
Increase (Decrease) in Liabilities:		
Accounts Payable - Trade	237,780	(143,105)
Research Grants Payable	(166,667)	(166,666)
Refundable Advances	600,000	-
Deferred Rent	(2,337)	93,300
Accrued Liabilities	39,931	(94,154)
Net Cash Provided (Used) by Operating Activities	2,502,267	(354,216)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	2,224,741	1,474,514
Purchases of Investments	(4,541,851)	(1,019,448)
Purchases of Property and Equipment	(75,000)	(40,877)
Net Cash Provided (Used) by Investing Activities	(2,392,110)	414,189
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Lease	(12,778)	(42,156)
Net Cash Used by Financing Activities	(12,778)	(42,156)
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,379	17,817
Cash and Cash Equivalents - Beginning of Year	130,705	112,888
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 228,084	\$ 130,705
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and Equipment Purchased with Lease Payable	\$ 155,493	\$ -

See accompanying Notes to Financial Statements.

**PKD FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

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	\$ 388,756	\$ 645,970	\$ 719,099	\$ 731,138	\$ 649,533	\$ 3,134,496
Travel and Meetings	110,245	37,297	128,538	-	27,315	303,395
Printing/Postage/Telephone	29,856	36,070	98,941	9,139	8,835	182,841
Office Supplies	1,523	19,621	5,565	2,691	3,414	32,814
Dues/Fees/Publications/ Professional Development	11,961	8,180	5,437	14,333	14,202	54,113
Equipment and Software	11,748	24,686	19,555	17,603	25,846	99,438
Advertising and Education	2,420	12,826	282,480	-	-	297,726
Professional Fees	449,311	387,586	306,777	62,875	309,186	1,515,735
Bank and Credit Card Fees	10,732	16,547	18,151	18,952	17,527	81,909
Occupancy	24,812	38,254	41,963	43,816	40,520	189,365
Insurance	2,031	3,131	3,434	3,586	3,316	15,498
Conferences/Special Events/Awards	37,637	57,591	332,646	31,785	191,584	651,243
Grants and Sponsorships	1,310,725	-	-	-	-	1,310,725
External R&D Funding	172,129	-	-	-	-	172,129
Depreciation and Amortization	11,669	17,990	19,734	20,606	19,065	89,064
Total Expenses	<u>\$ 2,575,555</u>	<u>\$ 1,305,749</u>	<u>\$ 1,982,320</u>	<u>\$ 956,524</u>	<u>\$ 1,310,343</u>	<u>\$ 8,130,491</u>

See accompanying Notes to Financial Statements.

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

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

See accompanying Notes to Financial Statements.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Significant estimates incorporated into the Foundation’s financial statements include the timing and collectability of pledges receivable, the fair value of certain gifts-in-kind, and the functional allocation of expenses. Actual results could differ from those estimates.

Basis of Presentation

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

Unrestricted

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

Temporarily Restricted

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

Permanently Restricted

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

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions, Pledges Receivable, and Refundable Advances

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.

Conditional contributions receivable are recognized when the conditions on which they depend are substantially met. Until that point, any amounts received are reported as refundable advance.

Other Receivables

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

Inventories

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

Research Grants

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

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts-In-Kind

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

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

Functional Allocation of Expenses

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

Impairment of Long-Lived Assets

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

Property and Equipment

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

Cash and Cash Equivalents

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

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

Income Taxes

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

Although it is exempt from federal and state income taxes on its principal operations, the Foundation is subject to federal income taxes on the net income from any operations identified by the Internal Revenue Service to generate unrelated business income. No such unrelated business income tax was incurred during 2018 or 2017. The Foundation follows the standards for evaluating uncertain tax positions and has determined no liability should be recorded for uncertain tax positions.

Deferred Rent

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

New Accounting Pronouncements Effective in Future Accounting Period

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. This standard was issued to improve the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and Cash flows. ASU 2016-14 is effective for fiscal year ending June 30, 2019. Management will be evaluating the effects of this new standard.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The standard does not impact the recording of contributions. Since then, the board issued proposed ASU, *Revenue from Contracts with Customers (Topic 606)*:

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**New Accounting Pronouncements Effective in Future Accounting Period
(Continued)**

Deferral of the Effective Date. The amendments in this update defer the effective date of Update 2014-09 for all entities by one year, making the standard effective for fiscal year ending June 30, 2020. Management will be evaluating the effects of this new standard.

In June 2018, FASB issued ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This update clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. ASU 2018-08 is effective for the Foundation for the fiscal year ending June 30, 2020. Management will be evaluating the effects of this new standard.

In February 2016, FASB issued ASU 2016-02 *Leases (Topic 842)*. This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the Foundation for the fiscal year ending June 30, 2021. Management will be evaluating the effects of this new standard.

Description of Programs

The Foundation operates the following ongoing programs:

Research

Since its founding in 1982, the Foundation has invested more than \$44 million in research, clinical and scientific grants, as well as fellowships and scientific meetings, making it the largest private funder of polycystic kidney disease (PKD) research. This has led to new discoveries, including identifying the genes responsible for PKD, which enables researchers to investigate possible treatments. Today, 20 PKD Foundation-funded research projects are underway. Additionally, at least five potential treatments are in clinical trials in the United States and at least one more trial is under way in the European Union, and we have made significant progress to better define the regulatory path to approval of novel therapeutic candidates for treatment early in the course of PKD. Initiatives included in research are outlined below.

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

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

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

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Programs (Continued)

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.

Education and Support

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

Chapters raise funds for the Foundation through events like Cocktails for a Cure and the Walk for PKD, the Foundation's signature event to raise funds and awareness. Walks take place in more than 50 cities across the nation each year and have raised nearly \$30 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.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Programs (Continued)

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.

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.

PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

Fair values of assets and liabilities measured on a recurring basis, as of June 30, 2018 and 2017, are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
<u>2018</u>				
Mutual Funds:				
Equity	\$ 2,225,279	\$ 2,225,279	\$ -	\$ -
Fixed Income	848,922	848,922	-	-
Corporate Bonds	497,304	-	497,304	-
Alternative Investments:				
Broadly Diversified	297,366	297,366	-	-
Real Estate	56,603	56,603	-	-
Total	<u>\$ 3,925,474</u>	<u>\$ 3,428,170</u>	<u>\$ 497,304</u>	<u>\$ -</u>
<u>2017</u>				
Mutual Funds:				
Equity	\$ 1,773,152	\$ 1,773,152	\$ -	\$ -
Fixed Income	754,079	754,079	-	-
Corporate Bonds	483,273	-	483,273	-
Alternative Investments:				
Broadly Diversified	261,204	261,204	-	-
Real Estate	45,229	45,229	-	-
Total	<u>\$ 3,316,937</u>	<u>\$ 2,833,664</u>	<u>\$ 483,273</u>	<u>\$ -</u>

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 3 INVESTMENTS

Investments at June 30, 2018 are as follows:

	Original Cost or Basis	Carrying Value	Excess (Deficiency) of Carrying Value Over Original Cost or Basis
Money Market Funds	\$ 3,156,801	\$ 3,156,801	\$ -
Equity Mutual Funds	1,845,120	2,225,279	380,159
Fixed Income Mutual Funds	869,780	848,922	(20,858)
Corporate Bonds	522,468	497,304	(25,164)
Alternative Investments	339,366	353,969	14,603
Total Investments	<u>\$ 6,733,535</u>	<u>\$ 7,082,275</u>	<u>\$ 348,740</u>

Investment returns for the year ended June 30, 2018 are as follows:

Investment Income	\$ 100,878
Net Realized Gain	70,026
Net Unrealized Gain	74,465
Total Investment Return	<u>\$ 245,369</u>
 Investment Fees	 <u>\$ 16,741</u>

Investments at June 30, 2017 are as follows:

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

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 3 INVESTMENTS (CONTINUED)

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

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

NOTE 4 PLEDGES RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Total Pledges Receivable	\$ 3,959,796	\$ 185,875
Less: Unamortized Discount	185,693	6,850
Less: Allowance for Uncollectible Pledges	<u>1,995</u>	<u>1,995</u>
Net Pledges Receivable	3,772,108	177,030
Less: Net Pledges Receivable, Current Portion	<u>1,026,291</u>	<u>52,880</u>
Net Pledges Receivable, Long-Term	<u>\$ 2,745,817</u>	<u>\$ 124,150</u>

Interest was imputed in discounting long-term pledges receivable at rates of 2.63% for the year ending June 30, 2018 and 1.47% for the year ending June 30, 2017.

Pledges are due in future years as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 1,028,286
2020	982,000
2021	982,000
2022	954,510
2023	12,000
2024	<u>1,000</u>
Total	<u>\$ 3,959,796</u>

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

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 5 RESEARCH GRANTS PAYABLE

Research grants payable were recorded to reflect the funds that were appropriated for future distribution to other nonprofit organizations. Grants payable were \$-0- and \$166,667 for the years ended June 30, 2018 and 2017, respectively.

NOTE 6 LEASE PAYABLE

The Foundation leased software under the terms of a capital lease, which required annual payments \$42,156, at a 0% interest rate. The lease matured December 18, 2017. The cost of the asset acquired under the capital lease was \$126,468. Related accumulated depreciation was \$126,468 and \$106,655 at June 30, 2018 and 2017, respectively.

The Foundation leases software under the terms of a capital lease, which requires annual payments as stated below, at a 0% interest rate. The lease matures April 11, 2021. The cost of the asset acquired under the capital lease is \$155,491. Related accumulated depreciation was \$12,957 and \$-0- at June 30, 2018 and 2017, respectively.

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 58,590
2020	44,021
2021	40,104
Total	<u><u>\$ 142,715</u></u>

In March 2016, the Foundation entered into a lease agreement for office space with a lease term commencing August 2016, and expiring February 2024. Lease expense for this office space totaled \$165,970 and \$138,157 for the years ended June 30, 2018 and 2017. The Foundation has recognized a deferred rent liability totaling \$90,963 and \$93,300 at June 30, 2018 and 2017, respectively, in order to recognize lease expense on a straight-line basis over the term of the lease. Future minimum lease payments under the lease are as follows for the years ended June 30:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 165,567
2020	169,663
2021	173,760
2022	177,856
2023	181,953
Thereafter	123,919
Total	<u><u>\$ 992,718</u></u>

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 BOARD-DESIGNATED NET ASSETS

The Foundation has organized volunteer Chapters located in various cities throughout the United States for the purposes of providing public and patient information and support, education concerning PKD, and assistance in raising funds for mission-related expenses. During the year ended June 30, 2017, funds raised by the individual volunteer Chapters, net of reimbursements of certain direct expenses incurred by those Chapters, were expended for programs of research, advocacy, education, support, and awareness. Funds raised by the Chapters that remained unspent at the statement of position date were classified as board designated unrestricted net assets by the Foundation. There were no board-designated net assets relating to chapter funds at June 30, 2018 or 2017.

During the year ending June 30, 2018, the Chapter's donors began restricting these funds to be expended for research only. Funds raised by the Chapters that remained unspent at the statement of position date are classified as temporarily restricted net assets and are included in Note 8 below.

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. During 2017, additional bequests and donations of \$1,021,830 were added to the fund. The total balance of the endowment is \$3,079,744 and \$1,927,341 at June 30, 2018 and 2017, respectively.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Net assets are temporarily restricted for the following reasons at June 30:

	2018	2017
ADPKD Research and Drug Repurposing	\$ 927,418	\$ 121,999
ARPKD Research	419,589	-
Time Restrictions	3,772,108	-
Carnes Endowment Earnings	-	33,092
Kaplan International Prizes for PKD Research	6,845	6,845
Total	\$ 5,125,960	\$ 161,936

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2018 and 2017 consisted of a contribution that established the James M. and Lucille Kemp Carnes Family Endowment. The primary purpose of the endowment is to provide financial support to advance PKD research and therapy development in order to carry out the Foundation's roles and missions. The endowment was formally established in September 2015.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 ENDOWMENT

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

Interpretation of Relevant Law

The board has interpreted Missouri's enactment of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Foundation classifies permanently restricted net assets as:

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

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Return Objectives and Risk Parameters

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

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 ENDOWMENT (CONTINUED)

Spending Policy

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

The spending calculation is made annually and was 4% for the fiscal year ending June 30, 2018. In establishing this policy, the Foundation considered the long-term expected returns on its endowment investments. Accordingly, over the long term, the Foundation expects the current spending policy will allow its endowment to retain its original corpus.

Volatility of Returns

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

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds:				
James M. and Lucille Kemp Carnes Family Endowment	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Board-Designated Endowment Funds:				
Laverne H. Duvall Endowment	3,079,744	-	-	3,079,744
Total Funds	<u>\$ 3,079,744</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 4,079,744</u>

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 ENDOWMENT (CONTINUED)

Changes in endowment net assets for the fiscal year ended June 30, 2018 :

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	\$ 1,927,341	\$ 33,093	\$ 1,000,000	\$ 2,960,434
Investment Return:				
Investment Income	98,552	40,484	-	139,036
Net Appreciation	58,963	24,221	-	83,184
Investment Fees	(11,866)	(4,875)	-	(16,741)
Net	145,649	59,830	-	205,479
Contributions	1,021,831	-	-	1,021,831
Appropriation of Endowment Assets for Expenditure	(15,077)	(92,923)	-	(108,000)
Net Assets - End of Year	<u>\$ 3,079,744</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 4,079,744</u>

Endowment net asset composition by type of fund as of June 30, 2017:

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	\$ 1,745,952	\$ 27,056	\$ 1,000,000	\$ 2,773,008
Investment Return:				
Investment Income	55,359	34,804	-	90,163
Net Appreciation	135,326	85,077	-	220,403
Investment Fees	(9,296)	(5,844)	-	(15,140)
Net	181,389	114,037	-	295,426
Appropriation of Endowment Assets for Expenditure	-	(108,000)	-	(108,000)
Net Assets - End of Year	<u>\$ 1,927,341</u>	<u>\$ 33,093</u>	<u>\$ 1,000,000</u>	<u>\$ 2,960,434</u>

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 \$114,542 and \$72,613 for the years ended June 30, 2018 and 2017, respectively. These joint costs were allocated as follows:

	2018	2017
Development	\$ 67,871	\$ 43,227
Awareness and Advocacy	35,005	22,040
Research	11,666	7,346
Total	\$ 114,542	\$ 72,613

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, 2018 and 2017 amounted to \$145,463 and \$127,583, respectively.

NOTE 13 CONTRACTUAL SERVICES

The Foundation contracted with ADP Totalsource, Inc. (ADP) in a client service agreement effective August 1, 2014 to engage in a co-employment relationship with the Foundation. ADP provides personnel management services to the Foundation's employees including payment of salaries, wages, payroll taxes, employee benefits, and procurement of workers' compensation insurance, and administration of claims. The Foundation paid \$2,681,525 and \$2,589,959 including salaries, benefits, and services to ADP for the year ended June 30, 2018 and 2017, respectively.

NOTE 14 ECONOMIC RISKS

In December 2017, the Tax Cuts and Jobs Act (TCJA) was approved by the United States Congress and signed into law. Provisions in the TCJA increase the standard deduction for taxpayers, lower tax rates, and increase estate tax exclusions and limits on the deductibility for contributions of cash to public charities. Uncertainty exists on the potential impact of contribution revenue to the Foundation.

**PKD FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 15 CONCENTRATIONS

Approximately 97% of the Foundation's pledges receivable at June 30, 2018 were from four donors. Approximately 76% of the Foundation's pledges receivable at June 30, 2017 were from three donors. Approximately 15% of the Foundation's revenues at June 30, 2018 was from one donor.

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 \$686,061 and \$81,145 at June 30, 2018 and 2017, respectively.

NOTE 16 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 17 SUBSEQUENT EVENTS

Management evaluated subsequent events through November 20, 2018, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to November 20, 2018 that provided additional evidence about conditions that existed at June 30, 2018, have been recognized in the financial statements for the year ended June 30, 2018.