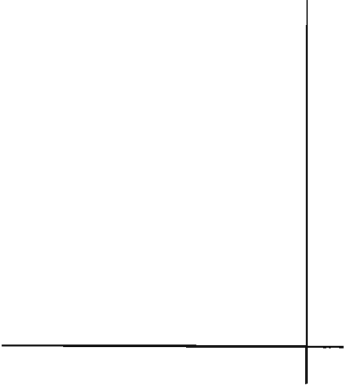


**PKD FOUNDATION**  
**Kansas City, Missouri**

**FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**



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## Independent Auditor's Report

Board of Trustees  
PKD Foundation  
Kansas City, Missouri

We have audited the accompanying statements of financial position of PKD Foundation for the years ended June 30, 2011 and 2010, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of PKD Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PKD Foundation for the years ended June 30, 2011 and 2010, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Clifton Gunderson LLP". The signature is written in a cursive, flowing style.

St. Joseph, Missouri  
October 14, 2011

**PKD FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	148,008	\$ 142,445
Investments	406,929	1,672
Pledges receivable - net	1,090,959	2,360,255
Other receivables	2,051	93,678
Inventory	24,015	25,717
Prepaid expenses	105,343	87,539
Deposits	<u>1,150</u>	<u>2,891</u>
Total current assets	<u>1,778,455</u>	<u>2,714,197</u>
<b>PROPERTY AND EQUIPMENT</b>		
Equipment and software	275,377	289,066
Less accumulated depreciation	<u>218,967</u>	<u>217,858</u>
Total property and equipment	<u>56,410</u>	<u>71,208</u>
<b>OTHER ASSETS</b>		
Long-term pledges receivable - net	206,516	337,297
Lease deposit	22,589	22,589
Investment in unconsolidated subsidiary - net	-	156,000
Intellectual property rights to be transferred - net	<u>326,384</u>	<u>662,751</u>
Total other assets	<u>555,489</u>	<u>1,178,637</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,390,354</u>	<u>\$ 3,964,042</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable:		
Trade	\$ 302,649	\$ 395,965
Research grants	22,405	216,000
Line-of-credit	-	250,000
Note payable	-	100,000
Accrued liabilities	391,196	258,994
Deferred revenue	<u>-</u>	<u>27,186</u>
Total current liabilities	<u>716,250</u>	<u>1,248,145</u>
<b>NET ASSETS</b>		
Unrestricted:		
Operating	(1,166,298)	(2,943,333)
Board designated (Chapter Funds)	392,652	2,364,550
Temporarily restricted	<u>2,447,750</u>	<u>3,294,680</u>
Total net assets	<u>1,674,104</u>	<u>2,715,897</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,390,354</u>	<u>\$ 3,964,042</u>

The accompanying notes are an integral part of the financial statements.

**PKD FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
Years Ended June 30, 2011 and 2010

	2011			2010				
	Operating	Board Designated (Chapter Funds)	Temporarily Restricted	Total	Operating	Board Designated (Chapter Funds)	Temporarily Restricted	Total
<b>REVENUES, GAINS, AND PUBLIC SUPPORT</b>								
Contributions:								
General	\$ 2,440,747	\$ 2,770,970	\$ 1,400,924	\$ 6,612,641	\$ 2,849,131	\$ 2,765,707	\$ 1,838,766	\$ 7,453,604
Campaign for Hope	-	-	17,792	17,792	-	-	92,028	92,028
Path Forward Campaign	-	-	538,648	538,648	-	-	500,000	500,000
Grants	100,000	-	-	100,000	-	-	-	-
Annual conference	42,760	-	-	42,760	-	-	-	11,269
Gifts-in-kind	223,034	66,022	-	289,056	120,057	193,997	-	314,054
Miscellaneous income	9,770	-	-	9,770	30,482	-	-	30,482
Interest, dividends, and investment income	228	-	-	228	365	-	-	365
Net realized gains (losses) on investments	10	-	-	10	(1,665)	-	-	(1,665)
Loss on sale of fixed assets	(700)	-	-	(700)	(2,913)	-	-	(2,913)
Board designated restrictions released	1,766,997	(1,766,997)	-	-	-	-	-	-
Donor restrictions released	200,000	-	(200,000)	-	-	-	-	-
Satisfaction of purpose restrictions	2,604,294	-	(2,604,294)	-	1,802,621	-	(1,802,621)	-
Total revenues, gains, and public support	7,387,140	1,069,995	(846,930)	7,610,205	4,809,347	2,959,704	628,173	8,397,224
<b>EXPENSES</b>								
Program services:								
Accelerating treatments to patients	2,275,296	204,901	-	2,480,197	689,738	383,812	-	1,073,550
Patient education and engagement	-	1,797,060	-	1,797,060	-	2,320,798	-	2,320,798
Public awareness	1,282,706	1,039,932	-	2,322,638	2,223,308	706,476	-	2,929,784
Total program services	3,558,002	3,041,893	-	6,599,895	2,913,046	3,411,086	-	6,324,132
Supporting services:								
Administrative	962,229	-	-	962,229	930,896	-	-	930,896
Development	777,874	-	-	777,874	983,700	-	-	983,700
Total supporting services	1,740,103	-	-	1,740,103	1,914,596	-	-	1,914,596
Total expenses	5,298,105	3,041,893	-	8,339,998	4,827,642	3,411,086	-	8,238,728
<b>IMPAIRMENT OF INVESTMENT IN UNCONSOLIDATED SUBSIDIARY</b>								
	312,000	-	-	312,000	-	-	-	-
<b>CHANGES IN NET ASSETS</b>								
	1,777,035	(1,971,898)	(846,930)	(1,041,793)	(18,295)	(451,382)	628,173	158,496
<b>NET ASSETS, BEGINNING OF YEAR</b>	(2,943,333)	2,364,550	3,294,680	2,715,897	(2,925,038)	2,815,932	2,666,507	2,557,401
<b>NET ASSETS, END OF YEAR</b>	<u>\$ (1,166,298)</u>	<u>\$ 392,652</u>	<u>\$ 2,447,750</u>	<u>\$ 1,674,104</u>	<u>\$ (2,943,333)</u>	<u>\$ 2,364,550</u>	<u>\$ 3,294,680</u>	<u>\$ 2,715,897</u>

The accompanying notes are an integral part of the financial statements.

**PKD FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (1,041,793)	\$ 158,496
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	21,098	26,838
Amortization of intellectual property rights	336,367	336,352
Loss (gain) on sale of investments	(10)	1,665
Losses on sale of property and equipment	700	2,913
Impairment of investment in unconsolidated subsidiary	312,000	
Effects of changes in operating assets and liabilities:		
Pledges receivable - net	1,400,077	273,585
Other receivables	91,627	(85,827)
Inventory	1,702	2,946
Prepaid expenses	(17,804)	(12,490)
Deposits	1,741	(23,480)
Accounts payable - trade	(93,316)	(132,729)
Research grants payable	(193,595)	(378,898)
Accrued liabilities	132,202	17,655
Deferred income	(27,186)	-
	<u>923,810</u>	<u>187,026</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	1,088,669	571,686
Purchases of investments	(1,493,916)	(572,292)
Investment in unconsolidated subsidiary	(156,000)	(156,000)
Purchases of property and equipment and intellectual property	(7,000)	(344,727)
	<u>(568,247)</u>	<u>(501,333)</u>
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (payments on) note payable	(100,000)	100,000
Net proceeds from (payments on) line-of-credit	(250,000)	200,000
	<u>(350,000)</u>	<u>300,000</u>
Net cash provided by (used in) financing activities		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,563	(14,307)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>142,445</u>	<u>156,752</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 148,008</u>	<u>\$ 142,445</u>
<b>Non cash transaction:</b>		
Intellectual property purchased with accounts payable	<u>\$ -</u>	<u>\$ 36,937</u>

The accompanying notes are an integral part of the financial statements.

PKD FOUNDATION  
STATEMENTS OF FUNCTIONAL EXPENSES  
Years Ended June 30, 2011 and 2010

	2011					2010						
	Accelerating Treatments to Patients	Patient Education and Engagement	Public Awareness	Administrative	Development	Total Expenses	Accelerating Treatments to Patients	Patient Education and Engagement	Public Awareness	Administrative	Development	Total Expenses
<b>EXPENSES</b>												
Salaries and benefits	\$ 684,255	\$ 735,593	\$ 1,078,615	\$ 724,525	\$ 551,395	\$ 3,774,383	\$ 381,995	\$ 947,470	\$ 1,097,357	\$ 730,158	\$ 763,854	\$ 3,920,834
Travel	67,976	80,601	38,531	18,219	27,056	232,383	73,631	136,686	128,428	11,686	38,895	389,326
Printing/postage/telephone	20,369	60,116	83,602	11,599	61,236	236,922	15,873	81,218	150,043	13,246	55,301	315,681
Office supplies	1,619	15,957	4,442	1,384	1,629	25,031	1,164	24,302	11,136	1,821	2,612	41,035
Dues/fees/publications/ professional development	2,557	3,008	32,117	5,175	25,011	67,868	948	1,737	17,941	3,691	19,226	43,543
Equipment and software	7,025	3,935	11,462	9,372	4,921	36,715	8,793	13,778	22,226	16,900	8,679	70,376
Advertising and education	-	-	162,743	-	-	162,743	-	550	129,225	-	-	129,775
Governmental relations	-	-	-	-	-	-	-	-	110,000	-	-	110,000
Professional fees	132,080	19,205	552,753	53,578	52,692	810,308	190,687	81,350	943,114	43,606	53,892	1,312,649
Bank fees	35	-	35	67,793	-	67,863	-	-	-	68,361	-	68,361
Occupancy	47,473	24,806	77,459	63,334	32,343	245,415	15,616	24,609	37,787	30,186	14,439	122,637
Insurance	1,742	3,550	2,587	1,726	1,300	10,905	943	3,154	2,779	1,721	1,833	10,430
Conferences/special events/awards	4,081	253,087	55,133	780	99	313,180	3,508	152,365	60,742	939	8	217,562
Grants and sponsorships	256,761	-	-	-	-	256,761	359,871	-	-	-	-	359,871
External R&D funding	1,232,817	-	-	-	-	1,232,817	-	-	-	-	-	-
Depreciation and amortization	21,407	87,962	223,159	4,744	20,192	357,464	20,521	90,121	219,006	8,581	24,961	363,190
Chapters	-	509,240	-	-	-	509,240	-	763,458	-	-	-	763,458
<b>TOTAL EXPENSES</b>	<b>\$ 2,480,197</b>	<b>\$ 1,797,060</b>	<b>\$ 2,322,638</b>	<b>\$ 962,229</b>	<b>\$ 777,874</b>	<b>\$ 8,339,998</b>	<b>\$ 1,073,550</b>	<b>\$ 2,320,798</b>	<b>\$ 2,929,784</b>	<b>\$ 930,896</b>	<b>\$ 963,700</b>	<b>\$ 8,238,728</b>

The accompanying notes are an integral part of the financial statements.

**PKD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**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. The Foundation’s fiscal year ends on June 30.

**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 investment assets, the allocation of expenses, and the valuation of the Foundation’s investment in 501 Technology LLC. Actual results could differ from those estimates.

**NET ASSETS**

Financial statement presentation of net assets follow the recommendations of generally accepted accounting standards. 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, if any.

**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. The Foundation has no permanently restricted net assets.

**PKD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CONTRIBUTIONS AND PLEDGES RECEIVABLE**

Contributions, including promises to give, are recorded and recognized as income when they become unconditional. Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Unconditional promises to give, due in the next year, are reflected as current 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.

In late 2005, the Foundation initiated a capital campaign (Progress, Knowledge, Discovery Campaign for Hope) with a goal to raise a minimum of \$10,000,000 for the specific purposes of providing funding to accelerate research to discover treatments, increase education and public awareness, and form partnerships to develop treatments. Funds raised under this campaign are temporarily restricted until used for research and are considered fully collectible.

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.

**BOARD DESIGNATED NET ASSETS (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 are classified as board designated unrestricted net assets by the Foundation.

**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, 2011 and 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**DONATED SERVICES**

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, with 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.

**PKD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**INVESTMENTS**

Money Market funds and other cash equivalents included as an integral part of the investment portfolio, are valued at their adjusted basis, which approximates fair market value.

**INVENTORIES**

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

**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. The Foundation's Form 990 information returns for years ended prior to June 30, 2008 are no longer subject to examination by the Internal Revenue Service.

**DESCRIPTION OF PROGRAMS**

The Foundation operates the following on-going programs:

**Accelerating Treatments to Patients**

The Foundation's Integrated Research and Development department has launched a new initiative called Accelerating Treatments to Patients. This initiative is translational in scope, meaning it is focused on taking basic science and turning it into clinical advances. Accelerating drug development for PKD through a repurposing strategy is the cornerstone of this new initiative. Other programs within this initiative include the PKD Outcomes Consortium Project (PKDOC) which is focused on facilitating clinical trial development for ADPKD therapies, Core grants which support an autosomal dominant polycystic kidney disease (ADPKD) gene mutation registry, and an autosomal recessive polycystic kidney disease (ARPKD) clinical database and electron microscopy facility. Our tissue donation program supports PKD scientists and their research. The Foundation also provides scientific meeting support and support for continuing medical education in PKD for nephrologists.

**Patient Education and Engagement**

The Foundation provides education and support for patients, family and friends through 61 volunteer-led chapters in cities across the country. These chapters work to raise awareness and funds for PKD Foundation programs via events such as the annual Walk for PKD which involves thousands of families. The chapters also provide local opportunities for education, networking and support.

**PKD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**DESCRIPTION OF PROGRAMS (CONTINUED)**

**Public Awareness**

The Foundation raises awareness of PKD through national, regional and local public relations and marketing efforts. The Foundation also educates the PKD community through a quarterly magazine (PKD Progress), online books, webinars, videos, a free monthly electronic newsletter and the websites [www.pkdcure.org](http://www.pkdcure.org) and [www.kidneylink.org](http://www.kidneylink.org). Awareness is also generated with national and local lawmakers through our monthly e-publication (PKD Champion Connection) and our annual governmental advocacy conference in Washington, D.C. (United on the Hill).

**NOTE 2 – INVESTMENTS**

The value of investments at June 30, 2011 consists of the following:

	<u>Original Cost or Basis</u>	<u>Fair Market Value</u>	<u>Excess of Market over Cost</u>
Money market funds	\$ 406,929	\$ 406,929	\$ -

Investment returns for the year ended June 30, 2011 consist of the following:

Interest	\$ 228
Net realized gains	<u>10</u>
Total investment returns	<u>\$ 238</u>

The value of investments at June 30, 2010 consists of the following:

	<u>Original Cost or Basis</u>	<u>Fair Market Value</u>	<u>Excess of Market over Cost</u>
Money market funds	\$ 1,672	\$ 1,672	\$ -

Investment returns for the year ended June 30, 2010 consist of the following:

Interest	\$ 365
Net realized losses	<u>(1,665)</u>
Total investment returns	<u>\$ (1,300)</u>

**PKD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 3 – PLEDGES RECEIVABLE**

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

	<u>2011</u>	<u>2010</u>
Total pledges receivable	\$ 1,367,024	\$ 2,777,520
Less: unamortized discount	14,984	35,703
Less: allowance for uncollectible pledges	<u>54,565</u>	<u>44,265</u>
Net pledges receivable	1,297,475	2,697,552
Less: net pledges receivable, current portion	<u>1,090,959</u>	<u>2,360,255</u>
 Net pledges receivable, long-term	 <u>\$ 206,516</u>	 <u>\$ 337,297</u>

Interest was imputed at rates from 3% to 6% in discounting long-term pledges to give.

Pledges are due in:

2012	\$ 1,145,524
2013	101,500
2014	60,000
2015	<u>60,000</u>
Total	<u>\$ 1,367,024</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 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

Generally accepted accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the standards are described below:

- 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

**PKD FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

- 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.

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

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

*Money market funds and equities:* Valued at closing price reported on the active market on which the individual securities are traded. These are classified as level 1 within the valuation hierarchy.

*Pledges receivable:* Value is determined by calculating the present value of future cash inflows as expected to be received by management, using discount rates from 3% to 6%. These are classified as level 3 within the valuation hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present assets measured at fair value by classification within the fair value hierarchy as of June 30, 2011 and 2010:

	<b>June 30, 2011</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Other Unobservable Inputs (Level 3)</b>
Pledges receivable	\$ 1,297,475	\$ -	\$ -	\$ 1,297,475
Money market funds	<u>406,929</u>	<u>406,929</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 1,704,404</u>	<u>\$ 406,929</u>	<u>\$ -</u>	<u>\$ 1,297,475</u>

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**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

	<b>June 30, 2010</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Other Unobservable Inputs (Level 3)</b>
Pledges receivable	\$ 2,697,552	\$ -	\$ -	\$ 2,697,552
Money market funds	1,672	1,672	-	-
<b>Total assets</b>	<b>\$ 2,699,224</b>	<b>\$ 1,672</b>	<b>\$ -</b>	<b>\$ 2,697,552</b>

The following is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) during the years ended June 30, 2011 and 2010:

	<b>Pledges Receivable</b>
Balance as of June 30, 2009	\$ 2,971,137
New pledges received	1,269,172
Collections on pledges	(1,574,521)
Write-offs of pledges	(50,597)
Change in allowance	(13,800)
Change in present value discount	96,161
Balance as of June 30, 2010	2,697,552
New pledges received	878,778
Collections on pledges	(1,993,726)
Write-offs of pledges	(295,548)
Change in allowance	(10,300)
Change in present value discount	20,719
Balance as of June 30, 2011	<b>\$ 1,297,475</b>

**NOTE 5 – LINE-OF-CREDIT**

The Foundation has an unsecured \$250,000 operating line-of-credit at 4% interest with UMB Bank that is due on demand. The line-of-credit had an outstanding balance totaling \$-0- and \$250,000 as of June 30, 2011 and 2010, respectively.

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**NOTE 6 – NOTE PAYABLE**

The Foundation had a \$100,000 note at 4% interest with UMB Bank that was paid in full on July 7, 2010.

**NOTE 7 – LEASE COMMITMENTS**

The Foundation leases office space under the terms of an operating lease that expires February 2017, which provides for the following minimum annual lease payment for the year ended June 30:

	<b>Office Space</b>
2012	\$ 271,073
2013	271,073
2014	271,073
2015	271,073
2016	271,073
2017	180,715
Total	<b>\$ 1,536,080</b>

Lease expense included in the statement of activities amounted to \$245,415 and \$122,637 for the years ended June 30, 2011 and 2010.

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Capital Campaigns	\$ 1,276,602	\$ 2,373,258
International Prize for PKD Research	6,169	-
Polysystic Liver Disease Research	719,236	-
CDISC Research Program	-	73,560
PKD Outcomes Consortium Research Program	445,743	847,862
Total	<b>\$ 2,447,750</b>	<b>\$ 3,294,680</b>

**NOTE 9 – DEFICIT UNRESTRICTED FUND BALANCE**

At June 30, 2011 and 2010, the fair value of the assets underlying the Foundation's unrestricted funds is less than the level required to fund the liabilities committed by those funds. Accordingly, at June 30, 2011 and 2010, the Foundation's unrestricted funds are being supported by drawing upon the Foundation's temporarily restricted funds.

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**NOTE 10 – 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, membership appeals, grant proposals, planned giving, sponsorships, special events and telemarketing. The cost of conducting those activities totaled \$1,649,049 and \$2,115,021 for the years ended June 30, 2011 and 2010, respectively. These joint costs were allocated as follows:

	<u>2011</u>	<u>2010</u>
Development	\$ 655,454	\$ 889,299
Public Awareness	557,091	681,506
Accelerating Treatments to Patients	107,418	133,934
Patient Education and Engagement	<u>329,086</u>	<u>410,282</u>
Total	<u>\$ 1,649,049</u>	<u>\$ 2,115,021</u>

**NOTE 11 – DEFERRED ANNUITY**

The Foundation provides its employees with a tax-deferred annuity under the provisions of Internal Revenue Code Section 403(b). Contributions to the Plan are normally calculated at 7.5% of eligible employees' salaries, but for calendar year 2011 were reduced to 4%. Contributions to the Plan for the years ended June 30, 2011 and 2010 amounted to \$130,484 and \$181,392, respectively.

**NOTE 12 – CONTRACTUAL SERVICES**

The Foundation has contracted with Insperity, formerly Administaff, in a client service agreement effective July 1, 2008 to engage in a co-employment relationship with the Foundation. Insperity 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. This agreement shall remain in force until either Insperity or the Foundation terminates the agreement by giving thirty days prior written notice. The Foundation paid an enrollment fee of \$14,018 and is required to pay service fees of approximately 24-26% of salaries, which covers benefits and services rendered to each employee. The Insperity service fee percentage may be adjusted annually. The Foundation paid \$3,479,906 and \$3,674,114 including salaries and fees to Insperity for the years ended June 30, 2011 and 2010, respectively.

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**NOTE 13 – AFFILIATED ORGANIZATIONS**

During 2009, PKD Therapeutics (formally known as PKD Enterprises) was chartered as a non profit supporting organization for the Foundation and operated as a 509(a)(3) organization. In the beginning, PKD Therapeutics was intended to create viable programs that generate social value through strategic business development, marketing and connection to the Foundation. In 2010, the Organization shifted its focus to funding advancement of therapies to alleviate suffering for those afflicted by PKD. However, no activity of this type actually occurred. At June 30, 2011 and 2010, PKD Therapeutics' balance sheet and statement of operations are insignificant and have not been consolidated in these financial statements. The Organization was terminated June 22, 2011 by the state of Missouri at the request of the Organization.

In October 2009, Kidney Wise was chartered as a non profit organization and will operate as a 501(c)(3) organization, with management support and guidance to be provided by the Foundation. It is intended that Kidney Wise will be responsible for development and implementation of a comprehensive program of awareness, research and study of the cause, treatment and cure of chronic kidney disease. The Organization did not have any material direct activity prior to June 30, 2011. All activity of the Organization is funded and paid out of PKD Foundation. In future years, as the activities of Kidney Wise become significant and more defined, a determination will be made as to whether it should be consolidated within the Foundation's financial statements.

**NOTE 14 – INVESTMENT IN UNCONSOLIDATED SUBSIDIARY, AND INTELLECTUAL PROPERTY TO BE TRANSFERRED**

In January 2010, the Foundation signed an agreement with ITX Capital Corp. (ITX) to form 501 Technology, LLC, (501) with each member holding a 50% ownership interest. The agreement calls for the Foundation to contribute \$156,000 during 2011 and 2010, and for ITX to contribute \$156,000 during 2011 and 2010, to fund 501.

The Foundation contributed \$156,000 through June 30, 2010 and an additional \$156,000 during the year ended June 30, 2011, resulting in an investment totaling \$312,000. These investments were reflected as investment in unconsolidated subsidiary in these financial statements and accounted for under the equity method, but are considered impaired at June 30, 2011. ITX is the managing member of 501, which has a December fiscal year end. ITX indicates that it made its required contributions through providing software development services. Although called for in the agreement, no formal operating agreement has yet been drafted or approved by the members.

The January 2010 agreement calls for the Foundation to transfer all intellectual property rights in the Foundation's various software products known as the Friendraiser, Pump, and Community products, along with all rights to the *501technology.com* website. 501's intended purpose is to further develop the software products and subsequently market them to other organizations with fundraising needs. The Foundation is to retain a royalty free license to use any of the software produced or owned by 501. This transfer had not yet occurred at June 30, 2011. The referenced intellectual property is reflected in these financial statements as intellectual property to be transferred at its amortized cost of \$326,384 at June 30, 2011 and \$662,751 at June 30, 2010.

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**NOTE 14 – INVESTMENT IN UNCONSOLIDATED SUBSIDIARY, AND INTELLECTUAL PROPERTY TO BE TRANSFERRED (CONTINUED)**

The January 2010 agreement further calls for the Foundation to sell its interest in 501 to ITX on December 31, 2010 for \$1,000 plus a future 20% interest in all licensing revenue earned by 501 for a five year period ending December 31, 2015, and thereafter a 3% interest. If the Foundation has not received a minimum of \$1 million in payments by the end of the initial five-year period, it will continue to receive the 20% payments indefinitely. Should the Foundation not earn a super-minimum of \$250,000 by the end of year three, or \$400,000 by the end of year four, or \$500,000 by the end of year five, ITX is to transfer its interest in 501 to the Foundation. The sale contemplated in this agreement has never occurred.

An amendment was created in February 2011, stating that if by June 30, 2011, either ITX or PKD procures a ready, willing and able buyer to purchase all of 501 Technology's assets, including the software that has yet to be transferred, for a purchase price of no less than \$600,000, ITX and the Foundation will split all the net proceeds generated from such a sale, and the Foundation will receive 5/6's of the proceeds. A verbal agreement has been made between the Foundation and ITX to extend this amendment until December 31, 2011.

As the assets were never transferred to 501 and no purchase agreement was ever formulated for the new company, 501 does not have any assets or any equity at June 30, 2011. Accordingly, management believes that its \$312,000 investment in unconsolidated subsidiary is impaired at June 30, 2011 and has consequently been reduced to reflect a zero fair value.

The future of 501 and the agreement between the Foundation and ITX, and the future ownership, development, and ultimate sale of the various referenced software products, is unknown as of the date of these financial statements. The eventual resolution of this uncertainty could be material to the financial statements of the Foundation.

**NOTE 15 – COMMITMENTS**

As a part of a restructuring plan implemented during the 2011 fiscal year, the Foundation reduced its employee base, which resulted in various severance agreements with terminating employees. Agreements with a term in excess of one year totaled \$379,500 and result in a remaining liability at June 30, 2011 of \$277,016 with final payment due in August 2012 that is included in accrued current liabilities.

**NOTE 16 – SUBSEQUENT EVENTS**

Management evaluated subsequent events through October 13, 2011, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to October 13, 2011 that provided additional evidence about conditions that existed at June 30, 2011, have been recognized in the financial statements for the year ended June 30, 2011. Events or transactions that provided evidence about conditions that did not exist at June 30, 2011, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2011.

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**NOTE 17 – RECLASSIFICATIONS**

Certain reclassifications of prior year's amounts have been made to conform to the presentation adopted for 2011. These reclassifications had no effect on previously reported earnings or net assets.

This information is an integral part of the accompanying financial statements.