



**NATIONAL PSORIASIS
FOUNDATION**

**Audited Financial
Statements**

**For the Year Ended
June 30, 2013**



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
National Psoriasis Foundation

Jake Jacobs, CPA
Shareholder

Susan J. Marks, CPA
Shareholder

Mark A. Clift, CPA
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Mary Strasdin, CPA
Principal

Dennis C. Johnson, CPA
of counsel

We have audited the accompanying financial statements of National Psoriasis Foundation (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Psoriasis Foundation as of June 30, 2013, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited National Psoriasis Foundation's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McDonald Jacobson, P.C.

Portland, Oregon
October 25, 2013

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2013
(With comparative totals for 2012)

| | 2013 | 2012 |
|--------------------------------------|------------------|------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 81,476 | \$ 995,915 |
| Accounts receivable | 180,491 | 172,777 |
| Pledges receivable, net | 1,042,609 | 548,214 |
| Legacies and bequests receivable | 9,000 | 420,400 |
| Prepaid expenses | 182,247 | 92,854 |
| Inventory | 21,585 | 25,290 |
| Other assets | 25,946 | 27,398 |
| Investments | 5,815,700 | 5,132,525 |
| Property and equipment, net | 34,198 | 38,078 |
| TOTAL ASSETS | \$ 7,393,252 | \$ 7,453,451 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 228,203 | \$ 153,109 |
| Accrued payroll liabilities | 54,103 | 55,382 |
| Accrued vacation payable | 157,353 | 139,800 |
| Deferred revenue | 53,675 | 19,370 |
| Deferred rent | 5,765 | - |
| Total liabilities | 499,099 | 367,661 |
| Net assets: | | |
| Unrestricted | 5,064,501 | 5,223,157 |
| Temporarily restricted | 1,829,652 | 1,862,633 |
| Total net assets | 6,894,153 | 7,085,790 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 7,393,252 | \$ 7,453,451 |

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2013
(With comparative totals for 2012)

| | 2013 | | | 2012 Total |
|--|------------------|---------------------------|------------------|------------------|
| | Unrestricted | Temporarily Restricted | Total | |
| Support and revenue: | | | | |
| Special events | \$ 1,694,071 | \$ - | \$ 1,694,071 | \$ 2,309,904 |
| Direct costs of donor benefits | (137,512) | - | (137,512) | (274,887) |
| Net special events revenue | 1,556,559 | - | 1,556,559 | 2,035,017 |
| Individual contributions | 1,152,894 | 243,258 | 1,396,152 | 1,320,813 |
| Corporate contributions and sponsorships | 2,850,239 | 583,012 | 3,433,251 | 2,558,662 |
| Foundation contributions | 20,000 | - | 20,000 | 28,500 |
| Legacies and bequests | 150,218 | 50,000 | 200,218 | 2,102,585 |
| Magazine and website advertising | 637,381 | - | 637,381 | 703,922 |
| Sales and fees | 31,875 | - | 31,875 | 130,437 |
| Investment income | 84,774 | - | 84,774 | 82,622 |
| Net realized/unrealized gains | 112,598 | - | 112,598 | 17,892 |
| Other income | 13,700 | - | 13,700 | 5,171 |
| Net assets released from restrictions: | | | | |
| Satisfaction of time restrictions | 486,567 | (486,567) | - | - |
| Satisfaction of purpose restrictions | 422,684 | (422,684) | - | - |
| Total support and revenue | 7,519,489 | (32,981) | 7,486,508 | 8,985,621 |
| Expenses: | | | | |
| Public education | 1,722,024 | - | 1,722,024 | 1,790,540 |
| Patient services | 945,123 | - | 945,123 | 784,166 |
| Professional education | 525,989 | - | 525,989 | 535,392 |
| Advocacy and government relations | 856,709 | - | 856,709 | 842,543 |
| Research | 2,070,774 | - | 2,070,774 | 2,208,929 |
| Management and general | 429,926 | - | 429,926 | 404,593 |
| Fundraising | 1,073,911 | - | 1,073,911 | 1,026,124 |
| Special events | 53,689 | - | 53,689 | 83,549 |
| Total expenses | 7,678,145 | - | 7,678,145 | 7,675,836 |
| Change in net assets | (158,656) | (32,981) | (191,637) | 1,309,785 |
| Net assets: | | | | |
| Beginning of year | 5,223,157 | 1,862,633 | 7,085,790 | 5,776,005 |
| End of year | \$ 5,064,501 | \$ 1,829,652 | \$ 6,894,153 | \$ 7,085,790 |

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2013
(With comparative totals for 2012)

| | Program Services | | | | | Total Program Services | Management and General | Fund- raising | Special Events | 2013 Total | 2012 Total |
|--|---------------------|---------------------|---------------------------|-------------------------|---------------------|------------------------------|------------------------------|---------------------|-------------------|---------------------|---------------------|
| | Public Education | Patient Services | Professional Education | Government Relations | Research | | | | | | |
| Salaries | \$ 860,174 | \$ 573,449 | \$ 143,362 | \$ 401,415 | \$ 258,052 | \$ 2,236,452 | \$ 172,035 | \$ 458,759 | \$ - | \$ 2,867,246 | \$ 2,813,852 |
| Employee benefits | 144,900 | 96,600 | 24,150 | 67,620 | 43,470 | 376,740 | 28,980 | 77,280 | - | 483,000 | 448,956 |
| Payroll taxes | 70,441 | 46,961 | 11,740 | 32,873 | 21,132 | 183,147 | 14,088 | 37,569 | - | 234,804 | 232,867 |
| Occupancy | 77,765 | 51,660 | 12,974 | 36,281 | 23,351 | 202,031 | 15,541 | 41,590 | - | 259,162 | 276,451 |
| Telecommunications | 21,703 | 10,533 | 1,825 | 7,038 | 2,754 | 43,853 | 4,325 | 19,232 | - | 67,410 | 59,460 |
| Awards and grants | - | - | - | - | 1,463,175 | 1,463,175 | - | - | - | 1,463,175 | 1,661,989 |
| Conferences and meetings | 38,718 | 6,291 | 162,583 | 10,697 | 74,364 | 292,653 | 39,237 | 17,158 | 30,120 | 379,168 | 381,379 |
| Printing and publications | 73,120 | 6,623 | 41,216 | 2,032 | 2,529 | 125,520 | 1,390 | 104,121 | - | 231,031 | 293,782 |
| Postage and shipping | 41,720 | 2,788 | 13,503 | 993 | 1,697 | 60,701 | 1,291 | 71,133 | - | 133,125 | 164,612 |
| Travel | 30,560 | 8,723 | 73,146 | 41,985 | 62,716 | 217,130 | 78,293 | 99,438 | - | 394,861 | 301,062 |
| Professional and contracted services | 271,969 | 61,617 | 32,740 | 206,956 | 102,074 | 675,356 | 46,107 | 70,319 | 59,612 | 851,394 | 890,103 |
| Supplies | 6,235 | 6,314 | 2,270 | 2,389 | 2,996 | 20,204 | 1,959 | 6,017 | 9,801 | 37,981 | 51,038 |
| Equipment maintenance and repair | 18,285 | 15,404 | 2,547 | 35,418 | 4,585 | 76,239 | 10,579 | 11,227 | 39,075 | 137,120 | 123,374 |
| Event expenses | - | - | - | - | - | - | - | - | 29,024 | 29,024 | 35,746 |
| Program marketing | 4,234 | 17,551 | - | - | - | 21,785 | - | 2,327 | - | 24,112 | - |
| Dues and subscriptions | 5,173 | 25,039 | 693 | 1,940 | 1,962 | 34,807 | 832 | 9,748 | - | 45,387 | 24,065 |
| Staff education and training | 3,549 | 4,105 | 591 | 1,656 | 1,065 | 10,966 | 710 | 1,893 | - | 13,569 | 7,545 |
| Insurance | 9,834 | 6,556 | 1,639 | 4,589 | 2,950 | 25,568 | 1,967 | 5,245 | - | 32,780 | 33,977 |
| Reporting and filing fees | 2,920 | 1,947 | 487 | 1,363 | 876 | 7,593 | 584 | 1,557 | - | 9,734 | 10,098 |
| Bad debt | - | - | - | - | - | - | - | 8,330 | - | 8,330 | 5,725 |
| Bank fees | 37,285 | - | - | - | - | 37,285 | 11,381 | 28,992 | 23,006 | 100,664 | 99,318 |
| Depreciation and amortization | 3,137 | 2,091 | 523 | 1,464 | 941 | 8,156 | 627 | 1,673 | - | 10,456 | 30,000 |
| Miscellaneous | 302 | 871 | - | - | 85 | 1,258 | - | 303 | 563 | 2,124 | 5,324 |
| | <u>1,722,024</u> | <u>945,123</u> | <u>525,989</u> | <u>856,709</u> | <u>2,070,774</u> | <u>6,120,619</u> | <u>429,926</u> | <u>1,073,911</u> | <u>191,201</u> | <u>7,815,657</u> | <u>7,950,723</u> |
| Less expenses deducted directly from revenues | - | - | - | - | - | - | - | - | (137,512) | (137,512) | (274,887) |
| Total expenses | <u>\$ 1,722,024</u> | <u>\$ 945,123</u> | <u>\$ 525,989</u> | <u>\$ 856,709</u> | <u>\$ 2,070,774</u> | <u>\$ 6,120,619</u> | <u>\$ 429,926</u> | <u>\$ 1,073,911</u> | <u>\$ 53,689</u> | <u>\$ 7,678,145</u> | <u>\$ 7,675,836</u> |

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2013
(With comparative totals for 2012)

| | <u>2013</u> | <u>2012</u> |
|---|------------------|--------------------|
| Cash flows from operating activities: | | |
| Cash receipts: | | |
| Contributions | \$ 4,237,601 | \$ 4,006,053 |
| Legacies and bequests | 611,618 | 1,972,185 |
| Special events - net | 1,556,559 | 2,035,017 |
| Sales, fees and registrations | 31,875 | 130,437 |
| Magazine and website advertising | 663,972 | 740,272 |
| Interest and dividends | 84,774 | 82,622 |
| Other | 13,700 | 5,171 |
| Total cash receipts | <u>7,200,099</u> | <u>8,971,757</u> |
| Cash disbursements: | | |
| Payroll and related expenses | 3,568,777 | 3,464,692 |
| Other operating expenses | 4,087,467 | 4,254,634 |
| Total cash disbursements | <u>7,656,244</u> | <u>7,719,326</u> |
| Net cash provided by (used in) operating activities | <u>(456,145)</u> | <u>1,252,431</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (5,124) | (19,732) |
| Proceeds from the sale of investments | 617,484 | 1,397,310 |
| Purchase of investments | (1,070,654) | (3,775,383) |
| Net cash used in investing activities | <u>(458,294)</u> | <u>(2,397,805)</u> |
| Net decrease in cash and cash equivalents | (914,439) | (1,145,374) |
| Cash and cash equivalents - beginning of year | <u>995,915</u> | <u>2,141,289</u> |
| Cash and cash equivalents - end of year | <u>\$ 81,476</u> | <u>\$ 995,915</u> |

Continued

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2013
(With comparative totals for 2012)

| | 2013 | 2012 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (191,637) | \$ 1,309,785 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 10,456 | 30,000 |
| Net realized/unrealized gain on investments | (112,598) | (17,892) |
| Contributed investments | (117,407) | (173,165) |
| (Increase) decrease in: | | |
| Accounts, pledges and bequests receivable | (90,709) | 181,916 |
| Prepaid expenses, inventory and other assets | (85,688) | 55,005 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 91,368 | (128,495) |
| Deferred revenue | 34,305 | (4,723) |
| Deferred rent | 5,765 | - |
| | <u>\$ (456,145)</u> | <u>\$ 1,252,431</u> |
| Net cash provided by (used in) operating activities | | <i>Concluded</i> |

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. THE ORGANIZATION

National Psoriasis Foundation (the Foundation), was founded in 1968 with the mission to find a cure for psoriasis and psoriatic arthritis, and to eliminate their devastating effects through research, advocacy, and education. Psoriasis has a devastating impact on the lives of individuals and their families. It is potentially physically disabling and emotionally devastating. It marks people as different and dictates that they learn to live in a society that can often be discriminatory and insensitive. Through education and advocacy, the Foundation promotes awareness and understanding, ensures access to treatment, and supports research that will lead to effective management and, ultimately, a cure. The Foundation is dedicated to educating, serving, and empowering people with psoriasis and psoriatic arthritis.

The Foundation's program services include:

Public Education - Programs which educate the public about the causes, treatments, and diagnosis of psoriasis and psoriatic arthritis, including patient education events, publications and the Foundation's website.

Patient Services - Patient services include online communities, online health care provider directory, patient mentor program and individual assistance.

Professional Education - Programs designed to improve the delivery of psoriasis care by health professionals, including Psoriasis Forum, training for health care professionals and exhibits at professional conventions.

Advocacy and Government Relations - Programs that support and promote patients access to care including insurance advocacy and government affairs.

Research - Programs include awards and grants made to institutions conducting psoriasis and psoriatic arthritis research in order to improve diagnosis and treatment, and eventually cure psoriasis, support of the Foundation's scientific meetings, BioBank and advocacy on research issues.

The Foundation's supporting services include:

Management and general activities provide the necessary developmental, organizational, and managerial support for the effective operation of programs.

Fundraising encompasses direct and indirect costs of solicitation of contributions.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as unrestricted or restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met, either by actions of the Foundation and/or the passage of time.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents included in investments are considered investments.

Accounts and Pledges Receivable

Accounts and pledges receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial. Accounts are written off when determined to be uncollectible and management has exhausted all reasonable collection efforts.

Inventory

Inventory consists of publications and is valued at the lower of cost, determined on the first-in, first-out method, or market.

Investments

Investments are carried at fair value.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 10 years.

Deferred Revenue

Amounts received in advance of being earned, generally for magazine and website advertising, are recorded as deferred revenue.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Foundation is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Legacies and bequests are recorded as revenue at the time the Foundation has an established right to the bequest and the proceeds are measurable.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, 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 as net assets released from restrictions.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Foundation recognizes 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.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Deferred Rent

For lease agreements that contain rent holidays and/or rent escalation clauses, the Foundation records a deferred rent liability and amortizes it on a straight-line basis over the term of the lease as an addition or reduction to rent expense.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Tax Status

National Psoriasis Foundation is a nonprofit corporation exempt from federal and state income tax under section 501(c)(3) of the Internal Revenue Code and applicable state provisions. The Foundation is not a private foundation.

Revenue from certain advertising services provided by the Foundation has been classified by the Internal Revenue Service as unrelated business income. The Foundation files the appropriate tax returns for these activities and pays tax on any excess income from these activities. The Foundation's unrelated business activities did not result in taxable income for the years ended June 30, 2013 and 2012. Net operating loss carryforwards total approximately \$91,000. A deferred tax asset of approximately \$19,000, which is subject to an estimated valuation allowance, if any, is not reflected in these financial statements as management believes it would have an immaterial effect on the financial statements taken as a whole.

Accounting principles generally accepted in the United States of America prescribe a recognition threshold and measurement process for accounting for uncertain tax positions and provide guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe that the Foundation has any uncertain tax positions. The Foundation's information and income tax returns for years ended June 30, 2009 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summarized Financial Information for 2012

The financial information as of June 30, 2012 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Subsequent Events

The Foundation has evaluated all subsequent events through October 25, 2013, the date the financial statements were available to be issued.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

3. PLEDGES, LEGACIES AND BEQUESTS RECEIVABLE

Pledges receivable represent unconditional promises to give and are receivable as follows June 30, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|-------------------|
| Within one year | \$ 916,288 | \$ 309,197 |
| Within two to five years | <u>160,482</u> | <u>273,178</u> |
| | 1,076,770 | 582,375 |
| Less allowance for uncollectible accounts | <u>34,161</u> | <u>34,161</u> |
| Pledges receivable, net | <u>\$ 1,042,609</u> | <u>\$ 548,214</u> |

Legacies and bequests receivable at June 30, 2013 are expected to be received in one year.

4. INVESTMENTS

Investments consist of the following at June 30, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|--------------------------------|---------------------|---------------------|
| Corporate bonds and bond funds | \$ 2,099,042 | \$ 1,837,840 |
| Equity mutual funds | 2,377,372 | 582,679 |
| Money market funds | <u>1,339,286</u> | <u>2,712,006</u> |
| Total investments | <u>\$ 5,815,700</u> | <u>\$ 5,132,525</u> |

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------|------------------|------------------|
| Furniture and equipment | \$ 541,028 | \$ 535,902 |
| Leasehold improvements | <u>12,898</u> | <u>12,898</u> |
| Total property and equipment | 553,926 | 548,800 |
| Less accumulated depreciation | <u>519,728</u> | <u>510,722</u> |
| Net property and equipment | <u>\$ 34,198</u> | <u>\$ 38,078</u> |

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

6. LINE OF CREDIT

The Foundation has a \$250,000 line of credit agreement with U.S. Bank. Interest is payable at the bank's prime rate (3.25% at June 30, 2013). The line is unsecured and due on demand. There were no outstanding advances at June 30, 2013 and 2012.

7. LEASE COMMITMENTS

The Foundation leases office space under an operating lease expiring December 2020. Monthly rent under the lease is \$17,825 subject to annual increases. The total lease is expensed over the life of the lease on a straight-line basis with deferred rent totaling \$5,765 at June 30, 2013 recorded as a liability.

The Foundation also leases equipment for a total of \$1,278 per month under operating lease agreements which expire in December 2015 and March 2018.

Rent expense for the above leases totaled approximately \$293,000 and \$314,000 for the years ended June 30, 2013 and 2012, respectively.

Future minimum lease commitments under operating leases are as follows:

| | | |
|---------------------------|----|-------------------------|
| Year ending June 30, 2014 | \$ | 230,800 |
| 2015 | | 237,300 |
| 2016 | | 240,800 |
| 2017 | | 244,600 |
| 2018 | | 249,400 |
| Thereafter | | <u>638,800</u> |
| | \$ | <u><u>1,841,700</u></u> |

8. CONDITIONAL GRANTS PAYABLE

The Foundation awards multiyear translational grants which are conditional on meeting performance requirements. As of June 30, 2013, the Foundation has awarded conditional grants totaling \$100,000 which will be recorded as expense when the conditions have been met.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

9. UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following at June 30, 2013 and 2012:

| | 2013 | 2012 |
|-------------------------------|--------------|--------------|
| Undesignated (deficit) | \$ (909,107) | \$ (248,176) |
| Board designated (Note 10) | 5,939,410 | 5,433,255 |
| Net property and equipment | 34,198 | 38,078 |
| Total unrestricted net assets | \$ 5,064,501 | \$ 5,223,157 |

10. BOARD DESIGNATED NET ASSETS

Board designated net assets consist of the following at June 30, 2013 and 2012:

| | 2013 | 2012 |
|-----------------------------------|--------------|--------------|
| Board designated reserve | \$ 1,100,000 | \$ 1,000,000 |
| Board designated endowment | 4,839,410 | 4,433,255 |
| Total board designated net assets | \$ 5,939,410 | \$ 5,433,255 |

It is the Foundation's policy to maintain a minimum financial reserve equal to three months of projected fixed operating expenses.

The Foundation's endowment consists solely of funds designated by the Board of Trustees to function as an endowment. 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 of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Since the Foundation's endowment does not include any donor-restricted funds, the entire amount of its endowment has been classified as unrestricted.

The endowment is invested in accordance with the Foundation's investment policy. Investments are placed in a diversified balanced portfolio consisting of equity securities, fixed income securities, and cash equivalents. The Foundation expects its portfolio to achieve returns comparable to nationally recognized market indices. In addition, the Foundation will conduct performance comparisons against nationally recognized balanced fund managers and market indices.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

10. BOARD DESIGNATED NET ASSETS, Continued

In accordance with the Board of Trustees' directive, endowment spending will be limited to 5 percent of fair value of the fund, as well as be subject to Board approval. During the years ended June 30, 2013 and 2012, the Board of Trustees elected to appropriate \$260,000 and \$90,000, respectively, of the endowment funds for general operations.

Changes in the board designated endowment for the years ended June 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|-------------------------------|--------------|--------------|
| Balance at beginning of year | \$ 4,433,255 | \$ 2,578,880 |
| Additions | 506,647 | 1,872,559 |
| Interest and dividends | 84,616 | 82,374 |
| Investment fees | (38,330) | (28,450) |
| Net realized/unrealized gains | 113,222 | 17,892 |
| Appropriate for expenditure | (260,000) | (90,000) |
| Balance at end of year | \$ 4,839,410 | \$ 4,433,255 |

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|--------------|--------------|
| Finding a Cure Campaign | \$ 101,506 | \$ 202,241 |
| General research | 30,263 | 35,680 |
| Lebwohl Fellowships | 731,661 | 759,161 |
| Fialkov diet | - | 4,500 |
| Halpin Award | - | 4,157 |
| Support groups | - | 49,084 |
| Legacies and bequests receivable | 9,000 | 420,400 |
| For use in future periods | 957,222 | 387,660 |
| Total temporarily restricted net assets | \$ 1,829,652 | \$ 1,862,883 |

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

12. RETIREMENT PLAN

The Foundation sponsors a defined contribution retirement plan (the plan) covering substantially all employees. The plan was established under Section 401(k) of the Internal Revenue Code. Employee contributions to the plan are in the form of salary deferrals and are immediately 100 percent vested. Employer contributions to the plan consist of an employer match. Under the employer matching contribution, the Foundation will match 100 percent of eligible employee salary deferrals, up to 5 percent of eligible compensation. All employer contributions to the plan are fully vested immediately. Employer contributions to the plan totaled \$119,014 and \$114,143 for the years ended June 30, 2013 and 2012, respectively.

13. JOINT COST ACTIVITY

The Foundation prepares publications through its website and hosts awareness walks which are all considered joint cost activities. Costs associated with the website and hosting awareness walks are allocated to program and fundraising activities for the years ended June 30, 2013 and 2012 as follows.

| | 2013 | 2012 |
|---------------------------|------------|------------|
| Public education | \$ 94,502 | \$ 135,798 |
| Fundraising | 66,936 | 74,447 |
| Total joint cost activity | \$ 161,438 | \$ 210,245 |

14. CONCENTRATIONS AND CREDIT RISK

The Foundation maintains its cash balances in one financial institution. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances at time pay exceed the federally insured limit. Balances in excess of insured limits were approximately \$461,000 as of June 30, 2013. Cash balances at June 30, 2012 were fully insured.

Accounts and pledges receivable are unsecured. As of June 30, 2013, one pledge outstanding represents 34% of total pledges receivable. As of June 30, 2012, one pledge outstanding represents 17% of total pledges receivable. Legacies and bequests for the year ended June 30, 2012 include a bequest representing 22% of total support and revenue.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

14. CONCENTRATIONS AND CREDIT RISK, Continued

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

15. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The inputs are categorized by different levels as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

15. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at June 30, 2013 and 2012 are as follows:

| | Fair Value | Level 1 |
|----------------------|---------------------|---------------------|
| | <u> </u> | <u> </u> |
| June 30, 2013 | | |
| Bond funds | \$ 2,099,042 | \$ 2,099,042 |
| Equity mutual funds: | | |
| Large value | 226,976 | 226,976 |
| Large growth | 726,624 | 726,624 |
| Large blend | 759,092 | 759,092 |
| Mid growth | 294,565 | 294,565 |
| Mid blend | 183,965 | 183,965 |
| Small growth | 186,150 | 186,150 |
| | <u>\$ 4,476,414</u> | <u>\$ 4,476,414</u> |
| | | |
| June 30, 2012 | | |
| Bond funds | \$ 1,837,840 | \$ 1,837,840 |
| Equity mutual funds: | | |
| Large value | 135,282 | 135,282 |
| Large growth | 113,471 | 113,471 |
| Foreign large growth | 172,144 | 172,144 |
| Large blend | 79,883 | 79,883 |
| Mid growth | 81,899 | 81,899 |
| | <u>\$ 2,420,519</u> | <u>\$ 2,420,519</u> |

Fair values for corporate bond funds and equity mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions.