



NATIONAL PSORIASIS FOUNDATION

Audited Financial Statements

For the Year Ended June 30, 2017



MCDONALD JACOBS

Shareholders

MARK A. CLIFT, CPA
KARIN S. WANDTKE, CPA
SANG AHN, CPA
GERARD DEBLOIS JR., CPA
MARY STRASDIN, CPA
ANTHONY ALMER, CPA
TYEE CARR, CPA

Principals

JAKE JACOBS, CPA Retired
SUSAN J. MARKS, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
National Psoriasis Foundation

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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McDonald Jacobz, P.C.

Portland, Oregon
October 21, 2017

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With comparative totals for 2016)

| | 2017 | 2016 |
|--|------------------|------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,936,543 | \$ 559,070 |
| Accounts receivable | 138,174 | 159,464 |
| Pledges and bequests receivable, net | 2,335,480 | 1,935,697 |
| Prepaid expenses, inventory and other assets | 414,056 | 279,764 |
| Investments | 4,408,474 | 3,380,691 |
| Restricted investments for annuity agreement | 82,952 | 89,067 |
| Property and equipment, net | 138,552 | 143,025 |
| TOTAL ASSETS | \$ 9,454,231 | \$ 6,546,778 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 258,283 | \$ 194,730 |
| Grants payable | 1,749,728 | 622,574 |
| Accrued payroll liabilities | 212,483 | 160,168 |
| Accrued vacation payable | 256,251 | 214,097 |
| Other liabilities | 112,871 | 78,318 |
| Deferred rent | 96,868 | 98,293 |
| Total liabilities | 2,686,484 | 1,368,180 |
| Net assets: | | |
| Unrestricted | 3,111,739 | 2,490,840 |
| Temporarily restricted | 3,656,008 | 2,687,758 |
| Total net assets | 6,767,747 | 5,178,598 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 9,454,231 | \$ 6,546,778 |

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2017
(With comparative totals for 2016)

| | 2017 | | | 2016 Total |
|---|-------------------|---------------------------|-------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total | |
| Support and revenue: | | | | |
| Special events | \$ 2,683,189 | \$ - | \$ 2,683,189 | \$ 1,965,108 |
| Direct costs of donor benefits | (236,386) | - | (236,386) | (158,227) |
| Net special events revenue | 2,446,803 | - | 2,446,803 | 1,806,881 |
| Contributions, legacies, and sponsorships | 9,510,250 | 1,416,991 | 10,927,241 | 7,196,081 |
| Magazine and website advertising | 566,498 | - | 566,498 | 542,092 |
| Investment income, net | 28,503 | - | 28,503 | 41,381 |
| Net realized/unrealized gains (losses) | 214,376 | - | 214,376 | (92,613) |
| Other income | 46,683 | - | 46,683 | 73,633 |
| Net assets released from restrictions: | | | | |
| Satisfaction of time restrictions | 14,473 | (14,473) | - | - |
| Satisfaction of purpose restrictions | 434,268 | (434,268) | - | - |
| Total support and revenue | 13,261,854 | 968,250 | 14,230,104 | 9,567,455 |
| Expenses: | | | | |
| Education and outreach | 2,567,361 | - | 2,567,361 | 2,541,367 |
| Professional education and outreach | 1,455,752 | - | 1,455,752 | 1,107,840 |
| Public awareness | 1,175,634 | - | 1,175,634 | 1,361,941 |
| Advocacy and government relations | 1,210,351 | - | 1,210,351 | 1,149,701 |
| Research | 3,325,535 | - | 3,325,535 | 2,565,554 |
| Total program expenses | 9,734,633 | - | 9,734,633 | 8,726,403 |
| Management and general | 953,713 | - | 953,713 | 908,873 |
| Fundraising | 1,535,949 | - | 1,535,949 | 1,232,756 |
| Special events | 416,660 | - | 416,660 | 404,739 |
| Total expenses | 12,640,955 | - | 12,640,955 | 11,272,771 |
| Change in net assets | 620,899 | 968,250 | 1,589,149 | (1,705,316) |
| Net assets: | | | | |
| Beginning of year | 2,490,840 | 2,687,758 | 5,178,598 | 6,883,914 |
| End of year | \$ 3,111,739 | \$ 3,656,008 | \$ 6,767,747 | \$ 5,178,598 |

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2017
(With comparative totals for 2016)

| | Program Services | | | | | | Management and General | Fund-raising | Special Events | 2017 Total | 2016 Total |
|---|------------------------|------------------------|------------------|-----------------------------------|--------------|------------------|------------------------|--------------|----------------|---------------|------------|
| | Education and Outreach | Professional Education | Public Awareness | Advocacy and Government Relations | Research | Program Services | | | | | |
| Salaries and related expenses | \$ 1,659,436 | \$ 514,143 | \$ 924,461 | \$ 722,507 | \$ 535,344 | \$ 4,355,891 | \$ 813,988 | \$ - | \$ 5,669,241 | \$ 4,968,864 | |
| Professional and contracted services | 281,222 | 346,299 | 121,067 | 227,687 | 149,129 | 1,125,404 | 121,893 | 118,003 | 1,466,793 | 1,481,739 | |
| Awards and grants | 8,696 | 81,805 | - | - | 2,486,241 | 2,576,742 | 11,649 | 1,023 | 2,589,414 | 1,495,327 | |
| Occupancy | 113,406 | 18,878 | 33,652 | 122,483 | 19,488 | 307,907 | 31,210 | - | 355,650 | 350,681 | |
| Office and other operating expenses | 63,988 | 12,320 | 25,105 | 35,717 | 11,444 | 148,574 | 41,040 | 75,882 | 305,774 | 270,619 | |
| Travel, conferences and meetings | 134,734 | 450,597 | 19,019 | 81,916 | 92,983 | 779,249 | 157,132 | 360,114 | 1,486,436 | 1,853,187 | |
| Supplies, printing, postage | 268,627 | 23,594 | 9,806 | 9,299 | 11,992 | 323,318 | 8,260 | 25,043 | 682,167 | 588,505 | |
| Bank fees | - | - | - | - | - | - | 68,623 | - | 77,136 | 77,183 | |
| Depreciation and amortization | 12,137 | 4,299 | 6,732 | 5,415 | 3,867 | 32,450 | 3,649 | - | 41,762 | 30,984 | |
| Miscellaneous | 25,115 | 3,817 | 35,792 | 5,327 | 15,047 | 85,098 | 25,574 | 72,981 | 202,968 | 313,909 | |
| Less expenses deducted directly from revenues | 2,567,361 | 1,455,752 | 1,175,634 | 1,210,351 | 3,325,535 | 9,734,633 | 953,713 | 653,046 | 12,877,341 | 11,430,998 | |
| | - | - | - | - | - | - | - | (236,386) | (236,386) | (158,227) | |
| Total expenses | \$ 2,567,361 | \$ 1,455,752 | \$ 1,175,634 | \$ 1,210,351 | \$ 3,325,535 | \$ 9,734,633 | \$ 953,713 | \$ 416,660 | \$ 12,640,955 | \$ 11,272,771 | |

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2017
(With comparative totals for 2016)

| | 2017 | 2016 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Cash receipts: | | |
| Contributions and sponsorships | \$ 9,760,756 | \$ 7,401,361 |
| Special events | 2,683,189 | 1,965,108 |
| Magazine and website advertising | 587,788 | 537,755 |
| Interest and dividends | 62,020 | 76,192 |
| Other receipts | 46,683 | 73,633 |
| Total cash receipts | 13,140,436 | 10,054,049 |
| Cash disbursements: | | |
| Payroll and related expenses | 5,574,777 | 4,903,335 |
| Other operating expenses | 6,131,239 | 5,490,218 |
| Total cash disbursements | 11,706,016 | 10,393,553 |
| Net cash provided by (used in) operating activities | 1,434,420 | (339,504) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (36,806) | (123,539) |
| Purchase of investments | (2,276,095) | (585,122) |
| Proceeds from the sale of investments | 2,255,954 | 550,458 |
| Net cash used in investing activities | (56,947) | (158,203) |
| Net increase (decrease) in cash and cash equivalents | 1,377,473 | (497,707) |
| Cash and cash equivalents - beginning of year | 559,070 | 1,056,777 |
| Cash and cash equivalents - end of year | \$ 1,936,543 | \$ 559,070 |

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

I. THE ORGANIZATION

National Psoriasis Foundation (the Foundation), was founded in 1968 with the mission to drive efforts to cure psoriatic disease and improve the lives of those affected. Psoriasis seriously impacts the lives of individuals and their families. It marks people as different and dictates that they learn to live in a society that can often be discriminatory and insensitive. The Foundation aims to improve the health of people living with psoriasis and psoriatic arthritis by increasing research, improving access to care, and expanding knowledge of psoriatic disease. The Foundation has a vision of a life free of psoriatic disease and its burdens.

The Foundation's program services include:

Education and Outreach - 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.

Professional Education and Outreach - Programs designed to improve the delivery of psoriasis care by health professionals, including the *Journal Of Psoriatic and Psoriatic Arthritis*, training for health care professionals and exhibits at professional conventions.

Public Awareness - Patient services include the Patient Navigation Center, a personalized support center for Psoriatic disease, online communities and health care provider directory, patient mentor program and individual assistance.

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, online research network, 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 and special events encompasses direct and indirect costs of solicitation of support and contributions.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

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 statement 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.

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. Investments fees are netted with investment income.

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. Leasehold improvements are amortized over the lease term.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Grants Payable

The Organization awards research and other grants to programs and institutions working in the psoriatic field. Grants become payable once approved by the Board and the grantee notified. Grants are paid in lump sums or installments over a 12 - month period.

Deferred Revenue

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

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.

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.

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.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

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, 2017 and 2016. Net operating loss carryforwards total approximately \$93,500.

The Foundation follows the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the Foundation's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

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 2016

The financial information as of June 30, 2016 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Reclassifications

Certain amounts in the prior year financial information have been reclassified to conform with the current year presentation.

Subsequent Events

The Foundation has evaluated all subsequent events through October 21, 2017, the date the financial statements were available to be issued.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

3. PLEDGES AND BEQUESTS RECEIVABLE

Pledges and bequests receivable represent unconditional promises to give and are receivable as follows at June 30, 2017 and 2016:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Within one year | \$ 2,349,536 | \$ 1,944,594 |
| Within two to five years | 3,255 | 8,414 |
| | <u>2,352,791</u> | <u>1,953,008</u> |
| Less allowance for uncollectible accounts | 17,311 | 17,311 |
| Pledges and bequests receivable, net | <u>\$ 2,335,480</u> | <u>\$ 1,935,697</u> |

4. INVESTMENTS

Investments consist of the following at June 30, 2017 and 2016:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Corporate bonds and bond funds | \$ 1,752,937 | \$ 1,289,600 |
| Equity mutual funds | 2,311,662 | 1,744,145 |
| Real estate funds | 108,865 | 100,995 |
| Commodities fund | 108,269 | 100,322 |
| Money market funds | 51,315 | 112,615 |
| Mutual funds, deferred compensation plan | 75,426 | 33,014 |
| Total investments | <u>\$ 4,408,474</u> | <u>\$ 3,380,691</u> |

5. ANNUITY AGREEMENTS

During 2015, the Foundation entered into charitable gift annuity agreement with a donor. Under the agreement, the Foundation is required to pay a guaranteed amount (annuity) for the lifetime of the donor or beneficiary (annuitant).

The charitable gift annuity funds are held in a separate trust, which are managed in accordance with the trust's investment policy. Assets are held in a money market account and totaled \$82,952 and \$89,067 at June 30, 2017 and 2016, respectively.

Under the terms of the agreement, the donor receives payments over their remaining life. With a pay-out rate of 6.4%, the estimated present value of the Foundation's liability under this agreement is \$37,445 and \$45,304 at June 30, 2017 and 2016, respectively.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|-------------------|-------------------|
| Furniture and equipment | \$ 593,636 | \$ 556,830 |
| Website | 85,098 | 85,098 |
| Leasehold improvements | <u>15,698</u> | <u>15,698</u> |
| Total property and equipment | 694,432 | 657,626 |
| Less accumulated depreciation | <u>555,880</u> | <u>514,601</u> |
| Property and equipment, net | <u>\$ 138,552</u> | <u>\$ 143,025</u> |

7. LINE OF CREDIT

The Foundation has a \$250,000 line of credit agreement with U.S. Bank. Interest on outstanding advances is payable at the bank's prime rate (4.25% at June 30, 2017). The line is unsecured and due on demand. There were no outstanding advances at June 30, 2017 and 2016.

8. LEASE COMMITMENTS

The Foundation leases office space in Oregon under two operating leases expiring December 2020. Combined monthly rent under the leases is approximately \$24,500. Both leases are subject to annual increases. The Foundation receives credit for property tax abatements.

The Foundation also leases office space in Virginia under an operating lease expiring February 2021. Monthly rent under the lease is \$7,205 subject to annual increases.

The above leases are expensed over the term of the lease on a straight-line basis with deferred rent totaling approximately \$96,900 and \$98,300 at June 30, 2017 and 2016, respectively.

The Foundation also leases equipment for a total of \$756 per month under an operating lease agreement which expires March 2018.

Rent expense for the above leases totaled approximately \$355,600 and \$350,700, after property tax abatements, for the years ended June 30, 2017 and 2016, respectively.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

8. LEASE COMMITMENTS, Continued

Future minimum lease commitments under operating leases are as follows:

| | |
|---------------------------|---------------------|
| Year ending June 30, 2018 | \$ 391,600 |
| 2019 | 396,100 |
| 2020 | 407,800 |
| 2021 | <u>224,600</u> |
| | <u>\$ 1,420,100</u> |

9. CONDITIONAL GRANTS PAYABLE

The Foundation awards multiyear translational grants which are conditional on meeting performance requirements. As of June 30, 2017, the Foundation has awarded conditional grants totaling \$400,000 which will be recorded as expense when the conditions have been met.

10. UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|---------------------|---------------------|
| Undesignated (deficit) | \$(4,202,840) | \$ (4,587,579) |
| Board designated (Note 11) | 7,176,027 | 6,935,394 |
| Net property and equipment | <u>138,552</u> | <u>143,025</u> |
| Total unrestricted net assets | <u>\$ 3,111,739</u> | <u>\$ 2,490,840</u> |

11. BOARD DESIGNATED NET ASSETS

Board designated net assets consist of the following at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------------|---------------------|
| Board designated reserve | \$ 1,600,000 | \$ 1,600,000 |
| Board designated endowment | <u>5,576,027</u> | <u>5,335,394</u> |
| Total board designated net assets | <u>\$ 7,176,027</u> | <u>\$ 6,935,394</u> |

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

II. BOARD DESIGNATED NET ASSETS, Continued

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 Directors to function as an endowment. In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors 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.

In accordance with the Board of Directors' directive, endowment spending will be limited to 5 percent of the fair value of the fund, as well as be subject to Board approval. No appropriations were made during 2017. During the year ended June 30, 2016, the Board of Directors elected to appropriate \$200,000 of the endowment funds for general operations.

Changes in the board designated endowment for the years ended June 30, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|--------------|--------------|
| Balance at beginning of year | \$ 5,335,394 | \$ 5,562,686 |
| Additions | - | 23,940 |
| Interest and dividends | 59,774 | 76,192 |
| Investment fees | (33,517) | (34,811) |
| Net realized/ unrealized gains (losses) | 214,376 | (92,613) |
| Appropriate for expenditure | - | (200,000) |
| Balance at end of year | \$ 5,576,027 | \$ 5,335,394 |

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2017 and 2016:

| | 2017 | 2016 |
|---|--------------|--------------|
| White Center for Excellence | \$ 700,272 | \$ - |
| Lebwohl Fellowships | 531,661 | 581,661 |
| Residency Program | 84,434 | 166,239 |
| For use in future periods | 2,339,641 | 1,939,858 |
| Total temporarily restricted net assets | \$ 3,656,008 | \$ 2,687,758 |

13. 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. 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. The Organization also sponsors a 457 deferred compensation plan for the executive director and two other key employees. The contribution rate by the Organization varies by employee. All contributions are set to vest at December 31, 2019.

Employer contributions to the plans were approximately \$152,800 and \$173,000 for the years ended June 30, 2017 and 2016, respectively.

14. JOINT COST ACTIVITY

The Foundation prepares publications through its website and hosts awareness walks which are considered joint cost activities. Costs associated with the website and awareness walks are allocated to program and fundraising activities for the years ended June 30, 2017 and 2016 as follows.

| | 2017 | 2016 |
|----------------------------|------------|------------|
| Program - public education | \$ 156,457 | \$ 102,233 |
| Fundraising | 156,457 | 102,233 |
| Total joint cost activity | \$ 312,914 | \$ 204,466 |

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

15. 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 times may exceed the federally insured limit. Balances in excess of insured limits were approximately \$1,910,000 and \$779,000 at June 30, 2017 and 2016, respectively.

Accounts and pledges receivable are unsecured. At June 30, 2017, one pledge outstanding represented 21% of total pledges receivable. One pledge outstanding at June 30, 2016 represented 15% of total pledges receivable.

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.

16. 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, 2017

16. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at June 30, 2017 and 2016 are as follows:

| | Fair Value | Level 1 | Level 2 |
|--------------------------|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| June 30, 2017 | | | |
| Assets: | | | |
| Bond funds | \$ 1,752,937 | \$ 1,752,937 | \$ - |
| Equity mutual funds | 2,387,088 | 2,387,088 | - |
| Real estate fund | 108,865 | 108,865 | - |
| Commodity fund | 108,269 | 108,269 | - |
| Money market fund | 51,315 | 51,315 | - |
| Liabilities: | | | |
| Gift annuity liability | - | - | (37,445) |
| June 30, 2016 | | | |
| Assets: | | | |
| Bond funds | 1,289,600 | 1,289,600 | - |
| Equity mutual funds | 1,777,159 | 1,777,159 | - |
| Real estate fund | 100,995 | 100,995 | - |
| Commodity fund | 100,322 | 100,322 | - |
| Money market fund | 112,615 | 112,615 | - |
| Liabilities: | | | |
| Gift annuity liability | - | - | (45,304) |

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.

Fair value of the charitable gift annuity is determined using an income approach in accordance with contract terms using published life expectancy tables and applicable discount rates.

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17. SUPPLEMENTAL CASH FLOW INFORMATION

The following represents a reconciliation of the change in net assets (as reported on the statement of activities) to net cash provided by (used in) operating activities (as reported on the statement of cash flows):

| | 2017 | 2016 |
|---|--------------|----------------|
| Change in net assets | \$ 1,589,149 | \$ (1,705,316) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 41,762 | 30,984 |
| Net realized/unrealized (gain) loss on investments | (214,376) | 92,613 |
| Donated stock | (744,739) | (98,984) |
| (Increase) decrease in: | | |
| Accounts, pledges and bequests receivable | (378,493) | 481,291 |
| Prepaid expenses, inventory and other assets | (134,775) | 218,927 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 158,022 | 23,442 |
| Grants payable | 1,127,154 | 622,574 |
| Deferred revenue | - | (7,001) |
| Gift annuity liability | (7,859) | (6,717) |
| Deferred rent | (1,425) | 8,683 |
| Net cash provided by (used in) operating activities | \$ 1,434,420 | \$ (339,504) |