



NATIONAL PSORIASIS FOUNDATION

Audited Financial Statements

For the Year Ended June 30, 2019



MCDONALD JACOBS

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, 2019, 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, 2019, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited National Psoriasis Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McDonald Jacobz, P.C.

Portland, Oregon
November 21, 2019

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With comparative totals for 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 2,916,260	\$ 2,110,171
Accounts receivable	401,037	377,191
Pledges and bequests receivable, net	3,244,767	2,564,575
Prepaid expenses, inventory and other assets	230,532	178,155
Investments	5,260,684	5,078,112
Investments restricted for deferred compensation	214,393	130,184
Investments restricted for annuity agreement	82,435	82,952
Property and equipment, net	87,636	95,449
 TOTAL ASSETS	 \$ 12,437,744	 \$ 10,616,789
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 321,273	\$ 297,252
Grants payable	2,605,000	1,901,114
Accrued payroll liabilities	330,703	210,566
Accrued vacation payable	240,685	247,039
Other liabilities	295,741	178,358
Deferred rent	110,338	84,346
Total liabilities	3,903,740	2,918,675
Net assets:		
Without donor restrictions	7,167,604	3,753,855
With donor restrictions	1,366,400	3,944,259
Total net assets	8,534,004	7,698,114
 TOTAL LIABILITIES AND NET ASSETS	 \$ 12,437,744	 \$ 10,616,789

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2019
(With comparative totals for 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Special events	\$ 2,325,457	\$ -	\$ 2,325,457	\$ 2,045,943
Direct costs of donor benefits	(364,586)	-	(364,586)	(164,634)
Net special events revenue	1,960,871	-	1,960,871	1,881,309
Contributions, legacies, and sponsorships	10,708,383	134,467	10,842,850	11,366,084
Magazine and website advertising	1,255,184	-	1,255,184	722,984
Investment income, net	86,515	-	86,515	51,261
Net realized/unrealized gains	60,707	-	60,707	176,490
Other income	17,595	-	17,595	35,630
Net assets released from restrictions:				
Satisfaction of purpose and time restrictions	2,712,326	(2,712,326)	-	-
Total support and revenue	16,801,581	(2,577,859)	14,223,722	14,233,758
Expenses:				
Education and outreach	2,930,322	-	2,930,322	3,200,264
Professional education	617,839	-	617,839	1,453,339
Public awareness	1,615,927	-	1,615,927	1,449,612
Advocacy and government relations	1,308,848	-	1,308,848	1,244,667
Research	3,753,742	-	3,753,742	3,258,823
Total program expenses	10,226,678	-	10,226,678	10,606,705
Management and general	966,772	-	966,772	837,600
Fundraising	2,005,339	-	2,005,339	1,559,826
Special events	189,043	-	189,043	299,260
Total expenses	13,387,832	-	13,387,832	13,303,391
Change in net assets	3,413,749	(2,577,859)	835,890	930,367
Net assets:				
Beginning of year	3,753,855	3,944,259	7,698,114	6,767,747
End of year	\$ 7,167,604	\$ 1,366,400	\$ 8,534,004	\$ 7,698,114

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2019

	Program Services					Total Program Services	Management and General	Fund- raising	Special Events	Total
	Education and Outreach	Professional Education	Public Awareness	Advocacy and Government Relations	Research					
Salaries and related expenses	\$ 1,698,848	\$ 496,872	\$ 938,332	\$ 782,659	\$ 555,688	\$ 4,472,399	\$ 437,376	\$ 1,067,544	\$ -	\$ 5,977,319
Professional and contracted services	430,100	85,518	497,468	266,246	118,356	1,397,688	109,927	161,295	25,901	1,694,811
Awards and grants	-	-	-	-	2,793,294	2,793,294	-	-	-	2,793,294
Occupancy	131,558	19,854	37,266	142,198	21,678	352,554	17,333	41,351	-	411,238
Office and other operating expenses	22,580	5,739	62,791	15,721	7,401	114,232	39,990	54,318	36,655	245,195
Travel, conferences and meetings	345,267	489	20,123	76,194	205,752	647,825	101,797	171,737	435,979	1,357,338
Supplies, printing, postage	239,182	2,994	16,143	11,316	13,172	282,807	12,653	457,006	51,212	803,678
Bank fees	-	-	-	-	-	-	60,633	15,982	-	76,615
Depreciation and amortization	13,111	3,832	7,248	6,002	4,293	34,486	3,370	8,310	-	46,166
Miscellaneous	49,676	2,541	36,556	8,512	34,108	131,393	183,693	27,796	3,882	346,764
	<u>2,930,322</u>	<u>617,839</u>	<u>1,615,927</u>	<u>1,308,848</u>	<u>3,753,742</u>	<u>10,226,678</u>	<u>966,772</u>	<u>2,005,339</u>	<u>553,629</u>	<u>13,752,418</u>
Less direct costs of donor benefits	-	-	-	-	-	-	-	-	(364,586)	(364,586)
Total expenses	<u>\$ 2,930,322</u>	<u>\$ 617,839</u>	<u>\$ 1,615,927</u>	<u>\$ 1,308,848</u>	<u>\$ 3,753,742</u>	<u>\$ 10,226,678</u>	<u>\$ 966,772</u>	<u>\$ 2,005,339</u>	<u>\$ 189,043</u>	<u>\$ 13,387,832</u>

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2018

	Program Services					Total Program Services	Management and General	Fund- raising	Special Events	Total
	Education and Outreach	Professional Education	Public Awareness	Advocacy and Government Relations	Research					
Salaries and related expenses	\$ 1,838,716	\$ 507,094	\$ 1,010,214	\$ 707,383	\$ 529,297	\$ 4,592,704	\$ 391,419	\$ 1,088,053	\$ -	\$ 6,072,176
Professional and contracted services	308,064	494,878	258,106	272,305	138,563	1,471,916	113,493	78,356	47,651	1,711,416
Awards and grants	5,036	84,434	-	-	2,285,050	2,374,520	-	3,314	3,964	2,381,798
Occupancy	132,358	22,317	37,880	124,997	15,818	333,370	17,978	18,761	1,046	371,155
Office and other operating expenses	74,877	8,138	62,870	33,487	7,813	187,185	40,637	20,151	46,431	294,404
Travel, conferences and meetings	470,869	308,256	16,738	83,826	258,197	1,137,886	115,101	92,198	236,437	1,581,622
Supplies, printing, postage	330,342	20,510	18,723	10,129	9,993	389,697	7,570	206,073	82,215	685,555
Bank fees	-	-	-	-	-	-	80,030	-	-	80,030
Depreciation and amortization	14,420	3,972	7,924	5,544	4,149	36,009	3,061	8,543	-	47,613
Miscellaneous	25,582	3,740	37,157	6,996	9,943	83,418	68,311	44,377	46,150	242,256
	<u>3,200,264</u>	<u>1,453,339</u>	<u>1,449,612</u>	<u>1,244,667</u>	<u>3,258,823</u>	<u>10,606,705</u>	<u>837,600</u>	<u>1,559,826</u>	<u>463,894</u>	<u>13,468,025</u>
Less direct costs of donor benefits	-	-	-	-	-	-	-	-	(164,634)	(164,634)
Total expenses	<u>\$ 3,200,264</u>	<u>\$ 1,453,339</u>	<u>\$ 1,449,612</u>	<u>\$ 1,244,667</u>	<u>\$ 3,258,823</u>	<u>\$ 10,606,705</u>	<u>\$ 837,600</u>	<u>\$ 1,559,826</u>	<u>\$ 299,260</u>	<u>\$ 13,303,391</u>

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2019
(With comparative totals for 2018)

	2019	2018
Cash flows from operating activities:		
Cash receipts:		
Contributions and sponsorships	\$ 10,111,901	\$ 10,569,064
Special events	2,325,457	2,045,943
Magazine and website advertising	1,258,475	496,380
Interest and dividends	120,032	84,778
Other receipts	17,595	35,630
Total cash receipts	13,833,460	13,231,795
Cash disbursements:		
Payroll and related expenses	5,863,537	6,083,304
Other operating expenses	7,031,280	6,948,184
Total cash disbursements	12,894,817	13,031,488
Net cash flows from operating activities	938,643	200,307
Cash flows from investing activities:		
Purchase of property and equipment	(40,000)	(4,067)
Purchase of investments	(3,716,865)	(3,024,676)
Proceeds from the sale of investments	3,624,311	3,002,064
Net cash flows from investing activities	(132,554)	(26,679)
Net change in cash and cash equivalents	806,089	173,628
Cash and cash equivalents - beginning of year	2,110,171	1,936,543
Cash and cash equivalents - end of year	\$ 2,916,260	\$ 2,110,171

See notes to financial statements.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

1. 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 - 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, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 estimated an allowance for uncollectible accounts. 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 or net realizable value, determined on the first-in, first-out (FIFO) basis.

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 \$5,000 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment, Continued

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.

Grants Payable

The Foundation awards research and other grants to programs and institutions working in the psoriatic field. Unconditional grants become payable once approved by the Board and the grantee notified. Conditional grants are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. 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.

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. The expenses that are allocated include salaries and related expenses, professional and contract services, occupancy, office and other operating expenses, travel, conferences and meetings, supplies, printing, postage, bank fees, depreciation and amortization, and miscellaneous, which are allocated on the basis of estimates of time and effort and square footage.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2019

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. Based on tax law changes, the Foundation may be subject to unrelated business income tax on certain taxable benefits. Any provision for income taxes associated with these changes is estimated to be immaterial. 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 resulted in approximately \$70,000 of income tax expense for the year ended June 30, 2019. For the year ended June 30, 2018, no taxes were due and the Foundation had a net operating loss carryforward of approximately \$46,000 available to offset future taxable income.

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.

Change in Accounting Principle

The Foundation has implemented Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU modified net asset classification and enhances disclosures regarding liquidity and availability of resources and functional expense reporting. The principle has been applied retrospectively to all periods presented, except for the available resources and liquidity disclosure (see Note 3).

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 2018

The financial information as of June 30, 2018 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Reclassifications

Certain amounts in the prior year financial statements were reclassified to conform with the current year presentation.

Subsequent Events

The Foundation has evaluated all subsequent events through November 21, 2019, the date the financial statements were available to be issued.

3. AVAILABLE RESOURCES AND LIQUIDITY

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its primary operations to be general expenditures. It excludes financial assets with donor or other restrictions limiting their use.

Financial assets of the Foundation consist of the following at June 30, 2019:

	Total Financial Assets	Board Designated	With Donor Restrictions	Available for General Expenditure
Cash and cash equivalents	\$ 2,916,260	\$ 1,819,284	\$ 1,211,400	\$ (114,424)
Accounts receivable	401,037	-	-	401,037
Pledges receivable				
within one year, net	2,408,710	-	155,000	2,253,710
Investments	5,260,684	5,260,684	-	-
Total financial assets	<u>\$ 10,986,691</u>	<u>\$ 7,079,968</u>	<u>\$ 1,366,400</u>	<u>\$ 2,540,323</u>

The board designated reserves are available for spending when approved by the board of directors. See Note 12 regarding board designated net assets. See Note 8 for information about the Foundation's line of credit.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2019

4. PLEDGES AND BEQUESTS RECEIVABLE

Pledges and bequests receivable represent unconditional promises to give and are receivable as follows at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 2,483,710	\$ 1,989,961
Within two to five years	883,000	576,115
	3,366,710	2,566,076
Less discount on long-term pledges receivable	21,042	-
Less allowance for uncollectible accounts	100,901	1,501
Pledges and bequests receivable, net	<u>\$ 3,244,767</u>	<u>\$ 2,564,575</u>

The Foundation has received a multi-year pledge of \$400,000 contingent on meeting specific requirements that were determined not to have been met as of June 30, 2019, and accordingly, are not reflected in the financial statements. The Foundation will record the pledges as revenue when the conditions have been met.

5. INVESTMENTS

Investments consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Bond funds	\$ 2,704,755	\$ 2,254,245
Equity mutual funds	2,482,171	2,557,312
Money market funds	73,758	110,296
Real estate funds	-	104,012
Commodities fund	-	52,247
Total investments	<u>\$ 5,260,684</u>	<u>\$ 5,078,112</u>

Investments held for deferred compensation:

Equity mutual funds	<u>\$ 214,393</u>	<u>\$ 130,184</u>
Total investments held for deferred compensation	<u>\$ 214,393</u>	<u>\$ 130,184</u>

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2019

6. 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 \$82,435 and \$82,952 at June 30, 2019 and 2018.

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 \$41,798 and \$35,761 at June 30, 2019 and 2018, respectively, and is included in other liabilities in the statement of financial position.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2019 and 2018:

	2019	2018
Furniture and equipment	\$ 327,555	\$ 593,636
Website	85,098	85,098
Leasehold improvements	19,765	19,765
Total property and equipment	432,418	698,499
Less accumulated depreciation	344,782	603,050
Property and equipment, net	\$ 87,636	\$ 95,449

8. 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 (5% at June 30, 2019). The line is unsecured and due on demand. There were no outstanding advances at June 30, 2019 and 2018.

NATIONAL PSORIASIS FOUNDATION
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 June 30, 2019

9. LEASE COMMITMENTS

The Foundation leases administrative and operating facilities and equipment under various operating lease agreements summarized below:

- Portland administrative office, term April 2013 through December 2022, monthly rent of \$21,288 with annual escalations
- Portland administrative office, term September 2015 through December 2022, monthly rent of \$4,631 with annual escalations
- Virginia administrative office, term November 2013 through February 2021, initial monthly rent of \$7,643 with annual escalations

The above leases are expensed over the term of the lease on a straight-line basis with deferred rent totaling approximately \$110,300 and \$84,300 at June 30, 2019 and 2018, respectively. Rent expense on the straight-line basis approximates \$381,000 per year for 2019 and 2018. The Portland administrative office leases receive annual property tax abatements which reduce rent payments. The leases are also subject to common area expenses.

Rent expense, after property tax abatements and common area expenses, totaled approximately \$411,200 and \$371,200, for the years ended June 30, 2019 and 2018, respectively.

The Foundation also leases office equipment under an agreement expiring May 2023 with monthly rent of \$773.

Future minimum lease commitments under operating leases are as follows:

Year ending June 30, 2020	\$ 417,100
2021	396,900
2022	340,200
2023	<u>171,800</u>
	<u>\$ 1,329,900</u>

10. CONDITIONAL GRANTS PAYABLE

The Foundation awards multiyear translational grants which are conditional on meeting performance requirements. As of June 30, 2019, the Foundation has awarded conditional grants totaling \$200,000 which will be recorded as expense when the conditions have been met.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2019

11. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consists of the following at June 30, 2019 and 2018:

	2019	2018
Undesignated (deficit)	\$ -	\$ (4,789,967)
Board designated (Note 12)	7,079,968	8,448,373
Net property and equipment	87,636	95,449
Total net assets without donor restrictions	\$ 7,167,604	\$ 3,753,855

12. BOARD DESIGNATED NET ASSETS

The Foundation's board designated assets consists of the following at June 30, 2019 and 2018:

	2019	2018
Board designated reserve - operating	\$ 1,600,000	\$ 1,600,000
Board designated reserve - discretionary	5,479,968	6,848,373
Total board designated net assets	\$ 7,079,968	\$ 8,448,373

The Foundation's policy is to maintain an operating reserve equal to at least three months of projected fixed operating expenses. The Foundation's board designated operating reserves can be released by a majority vote of the Board of Directors. The Foundation also maintains a separate reserve (discretionary reserve) generated by annual bequest revenue over \$100,000. This reserve can be released at the discretion of the Foundation's finance committee. During 2019, the Foundation's finance committee approved the release of a portion of the Foundation's discretionary reserve to cover any deficit in net assets without donor restrictions (undesignated) as of June 30, 2019. Total amounts appropriated from the reserve were approximately \$1,472,000.

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2019 and 2018:

	2019	2018
White Center for Excellence	\$ 135,272	\$ 385,272
Lebwohl Fellowships	431,661	481,661
Psoriatic Arthritis Research	799,467	550,000
Medical education	-	511,250
Other for use in future periods	-	2,016,076
Total net assets with donor restrictions	\$ 1,366,400	\$ 3,944,259

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2019

14. RETIREMENT PLANS

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 Foundation also sponsors a 457 deferred compensation plan for the executive director and two other key employees. The contribution rate by the Foundation varies by employee. All contributions are set to vest at December 31, 2019. Employer contributions to the plans were approximately \$153,800 and \$162,200 for the years ended June 30, 2019 and 2018, respectively.

15. 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, 2019 and 2018 as follows.

	2019	2018
Program - public education	\$ 189,403	\$ 299,260
Fundraising	189,403	299,260
Total joint cost activity	\$ 378,806	\$ 598,520

16. 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 \$2,805,000 and \$2,060,000 at June 30, 2019 and 2018, respectively.

Accounts and pledges receivable are unsecured. At June 30, 2019, one pledge outstanding represented 16% of total pledges receivable. Two pledges outstanding at June 30, 2018 represented 24% of total pledges receivable.

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2019

16. 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.

17. 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.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2019 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
June 30, 2019			
Assets:			
Bond funds	\$ 2,704,755	\$ 2,704,755	\$ -
Equity mutual funds	2,696,564	2,696,564	-
Liabilities:			
Gift annuity liability	-	-	(41,798)

NATIONAL PSORIASIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2019

17. FAIR VALUE MEASUREMENTS, Continued

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
June 30, 2018			
Assets:			
Bond funds	\$ 2,254,245	\$ 2,254,245	\$ -
Equity mutual funds	2,687,496	2,687,496	-
Real estate fund	104,012	104,012	-
Commodity fund	52,247	52,247	-
Liabilities:			
Gift annuity liability	-	-	(35,761)

Fair values for bond 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.