

CONSOLIDATED FINANCIAL STATEMENTS

National Kidney Foundation, Inc.
Year Ended June 30, 2009
With Summarized Financial Information
for the Year Ended June 30, 2008
With Report of Independent Auditors

National Kidney Foundation, Inc.

Consolidated Financial Statements

Year Ended June 30, 2009
With Summarized Financial Information
for the Year Ended June 30, 2008

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Report of Independent Auditors

The Board of Directors
National Kidney Foundation, Inc.

We have audited the accompanying consolidated balance sheet of the National Kidney Foundation, Inc. (the "Foundation") as of June 30, 2009, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2008 financial statements and, in our report dated October 13, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the National Kidney Foundation, Inc. as of June 30, 2009, and the consolidated changes in its net assets and its consolidated cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 14, 2009

National Kidney Foundation, Inc.

Consolidated Balance Sheet

	June 30	
	2009	2008
Assets		
Cash and cash equivalents	\$ 2,971,917	\$ 6,065,638
Investments	9,456,247	12,614,660
Investments held under split-interest agreements	1,158,770	1,156,049
Due from Affiliates, principally share of Affiliate contributions, less allowance for uncollectible amounts of \$65,490 in 2009 and \$107,255 in 2008	883,279	1,718,416
Other receivables	4,028,401	4,232,305
Inventories	494,011	526,004
Prepaid expenses	873,049	1,405,076
Fixed assets, at cost, less accumulated depreciation and amortization	898,072	658,128
Other assets	62,260	51,553
Total assets	<u>\$ 20,826,006</u>	<u>\$ 28,427,829</u>
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 7,114,807	\$ 5,066,250
Payable to beneficiaries	441,672	413,701
Funds held in trust	-	475,841
Deferred income	3,738,871	4,417,469
Total liabilities	<u>11,295,350</u>	<u>10,373,261</u>
Commitments		
Net assets (deficiency):		
Unrestricted	(1,877,766)	4,320,616
Temporarily restricted	10,403,031	13,109,573
Permanently restricted	1,005,391	624,379
Total net assets	<u>9,530,656</u>	<u>18,054,568</u>
Total liabilities and net assets	<u>\$ 20,826,006</u>	<u>\$ 28,427,829</u>

See accompanying notes.

National Kidney Foundation, Inc.
Consolidated Statement of Activities

Year Ended June 30, 2009

With Summarized Financial Information for the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Support, revenue and reclassifications					
Support from the public:					
Received directly – contributions	\$ 7,575,378	\$ 3,016,271	\$ –	\$ 10,591,649	\$ 4,598,245
Received indirectly – share of Affiliate contributions	4,157,279	–	–	4,157,279	6,976,589
Received indirectly – contributions	797,565	390	–	797,955	220,967
Revenues from special events	\$ 9,760,554				
Less direct benefit to donor costs	1,263,486				
Net special events	8,497,068	–	–	8,497,068	3,019,967
Total support from the public	21,027,290	3,016,661	–	24,043,951	14,815,768
Revenue:					
Program service support and fees	16,611,866	–	–	16,611,866	18,151,344
Royalties	1,792,265	–	–	1,792,265	1,998,450
Dues – professional members	803,841	–	–	803,841	655,469
Investment (loss) income, including net realized and unrealized gains (losses) of \$(3,176,866) in fiscal 2009 and \$(1,943,667) in fiscal 2008	181,331	(2,994,159)	–	(2,812,828)	(873,443)
Sale of donated vehicles	\$ 2,770,429				
Less cost of sales	3,424,873				
Net sales of donated vehicles	(654,444)	–	–	(654,444)	(294,467)
Other, net	1,122,579	17,909	–	1,140,488	608,052
Total revenue and support	40,884,728	40,411	–	40,925,139	35,061,173
Net assets released from restrictions	3,983,388	(3,983,388)	–	–	–
Total support and revenue	44,868,116	(3,942,977)	–	40,925,139	35,061,173
Expenses					
Program services:					
Research	4,525,083	–	–	4,525,083	3,616,592
Public health education	6,822,749	–	–	6,822,749	4,678,716
Professional education	14,846,085	–	–	14,846,085	11,731,260
Patient services	6,394,846	–	–	6,394,846	6,562,015
Community services and assistance to Affiliates	12,022,739	–	–	12,022,739	5,198,316
Total program services	44,611,502	–	–	44,611,502	31,786,899
Supporting services:					
Fundraising	4,205,078	–	–	4,205,078	2,184,362
Management and general (Note 1):					
Administrative	4,724,159	–	–	4,724,159	5,572,935
Reorganization of Affiliates to divisions	3,749,750	–	–	3,749,750	2,194,649
Total management and general	8,473,909	–	–	8,473,909	7,767,584
Total supporting services	12,678,987	–	–	12,678,987	9,951,946
Total expenses	57,290,489	–	–	57,290,489	41,738,845
Net assets received associated with reorganization of Affiliates to divisions	6,223,991	1,236,435	381,012	7,841,438	4,582,493
Change in net assets	(6,198,382)	(2,706,542)	381,012	(8,523,912)	(2,095,179)
Net assets at beginning of year	4,320,616	13,109,573	624,379	18,054,568	20,149,747
Net assets at end of year	\$ (1,877,766)	\$ 10,403,031	\$ 1,005,391	\$ 9,530,656	\$ 18,054,568

See accompanying notes.

National Kidney Foundation, Inc.

Consolidated Statement of Cash Flows

	Year Ended June 30	
	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (8,523,912)	\$ (2,095,179)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	196,580	213,329
Deferred rent	52,359	130,943
Provision for inventory obsolescence	–	68,381
Allowance for uncollectible accounts	(41,765)	(48,412)
Net assets received associated with reorganization of Affiliates to divisions, excluding cash	721,419	576,060
Net realized and unrealized losses on investments	3,176,866	1,943,667
Decrease (increase) in assets:		
Due from Affiliates	1,552,324	304,446
Other receivables	(807,317)	(471,994)
Inventories	31,993	(55,592)
Prepaid expenses	496,307	(782,362)
Other assets	(23,229)	(204)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,694,908	738,613
Payable to beneficiaries	27,971	51,250
Funds held in trust	(475,841)	(41,141)
Deferred income	(714,686)	(55,851)
Net cash (used in) provided by operating activities	<u>(2,636,023)</u>	<u>475,954</u>
Cash flows from investing activities		
Purchases of fixed assets	(436,524)	(285,001)
Proceeds from sale of investments	10,403,420	15,141,909
Purchases of investments	(10,424,594)	(12,732,966)
Net cash (used in) provided by investing activities	<u>(457,698)</u>	<u>2,123,942</u>
Net (decrease) increase in cash and cash equivalents	(3,093,721)	2,599,896
Cash and cash equivalents at beginning of year	6,065,638	3,465,742
Cash and cash equivalents at end of year	<u>\$ 2,971,917</u>	<u>\$ 6,065,638</u>
Supplemental disclosure of cash flow information		
Unrelated business income taxes paid	<u>\$ –</u>	<u>\$ 250</u>

See accompanying notes.

National Kidney Foundation, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2009

With Summarized Financial Information for the Year Ended June 30, 2008

	Program Services					Supporting Services					Total Program and Supporting Services	
	Research	Public Health Education	Professional Education	Patient Services	Community Services/ Assistance to Affiliates	Total	Fund-Raising	Management and General	Direct Benefit Costs and Donated Vehicles Costs and Expenses		2009	2008
										Total		
Salaries	\$ 541,274	\$ 2,038,747	\$ 2,214,078	\$ 2,311,903	\$ 3,595,455	\$ 10,701,457	\$ 433,061	\$ 4,506,441	\$ –	\$ 4,939,502	\$ 15,640,959	\$ 10,389,832
Employee benefits	103,688	390,798	424,135	433,511	688,755	2,040,887	83,220	863,266	–	946,486	2,987,373	2,006,569
Payroll taxes	35,255	132,791	144,211	133,657	234,185	680,099	29,263	293,521	–	322,784	1,002,883	735,286
Awards and grants	3,078,777	41,422	30,865	380,808	4,214	3,536,086	137,765	3,565	–	141,330	3,677,416	3,052,834
Professional fees and contract services	95,648	321,221	1,005,110	361,946	561,815	2,345,740	778,674	588,192	–	1,366,866	3,712,606	2,368,276
Office supplies and expenses	28,632	177,998	264,205	163,417	241,636	875,888	471,943	237,166	631,743	1,340,852	2,216,740	1,377,045
Telephone	11,868	47,863	49,936	52,888	79,899	242,454	16,848	98,807	–	115,655	358,109	253,643
Postage and shipping	15,469	92,898	245,043	66,411	110,991	530,812	91,328	128,659	–	219,987	750,799	459,275
Building occupancy	71,912	271,276	294,300	275,737	483,425	1,396,650	75,035	598,716	–	673,751	2,070,401	1,459,581
Insurance	7,875	29,662	32,213	35,113	52,660	157,523	34,896	65,564	–	100,460	257,983	183,818
Printing and publications	6,803	306,551	667,899	91,074	63,084	1,135,411	289,673	56,633	–	346,306	1,481,717	1,208,778
Meetings and travel – volunteers	1,052	4,646	5,300	37,301	10,560	58,859	3,290	8,759	–	12,049	70,908	633,907
Meetings and travel – staff	40,156	416,794	362,653	184,528	358,765	1,362,896	382,055	334,321	631,743	1,348,119	2,711,015	1,778,403
Meetings and travel – medical	2	8	5,418	9,125	14	14,567	2	18	–	20	14,587	34,074
Transplant games	–	1,928,369	–	–	–	1,928,369	–	–	–	–	1,928,369	97,448
Special projects programs	3,000	–	8,491,144	400,870	3,420,519	12,315,533	–	–	–	–	12,315,533	13,197,118
Special projects marketing	–	–	–	–	1,509,078	1,509,078	–	–	–	–	1,509,078	1,351,549
Cost of donated vehicles	–	–	–	–	–	–	–	–	654,444	654,444	654,444	966,297
Subscriptions and publications	1,735	6,536	7,148	7,008	11,698	34,125	1,730	14,447	–	16,177	50,302	64,984
Direct assistance to patients	7	10,327	29	1,017,711	1,229	1,029,303	1,547	59	–	1,606	1,030,909	470,112
Membership dues and support	3,306	12,454	14,135	13,425	22,128	65,448	3,992	27,528	–	31,520	96,968	70,463
Miscellaneous expenses	471,706	566,331	559,966	392,187	526,677	2,516,867	1,365,221	590,652	–	1,955,873	4,472,740	1,049,718
	4,518,165	6,796,692	14,817,788	6,368,620	11,976,787	44,478,052	4,199,543	8,416,314	1,917,930	14,533,787	59,011,839	43,209,010
Depreciation and amortization	6,918	26,057	28,297	26,226	45,952	133,450	5,535	57,595	–	63,130	196,580	213,329
	4,525,083	6,822,749	14,846,085	6,394,846	12,022,739	44,611,502	4,205,078	8,473,909	1,917,930	14,596,917	59,208,419	43,422,339
Less:												
Direct benefit costs	–	–	–	–	–	–	–	–	(1,263,486)	(1,263,486)	(1,263,486)	(416,124)
Donated vehicles cost of sales and selling expenses	–	–	–	–	–	–	–	–	(654,444)	(654,444)	(654,444)	(966,297)
Cost of sales	–	–	–	–	–	–	–	–	–	–	–	(301,073)
Total expenses reported by function in the consolidated statement of activities	\$ 4,525,083	\$ 6,822,749	\$ 14,846,085	\$ 6,394,846	\$ 12,022,739	\$ 44,611,502	\$ 4,205,078	\$ 8,473,909	\$ –	\$ 12,678,987	\$ 57,290,489	\$ 41,738,845
Current year's percentages	7.90%	11.91%	25.91%	11.16%	20.99%	77.87%	7.34%	14.79%	–%	22.13%	100.00%	–%
Last year's percentages	8.66%	11.21%	28.11%	15.72%	12.46%	76.16%	5.23%	18.61%	–%	23.84%	–%	100.00%

See accompanying notes.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2009

1. Organization and Summary of Significant Accounting Policies

The National Kidney Foundation, Inc. (the “Foundation”), headquartered in New York City, has a chartered network of 18 affiliated organizations (“Affiliates”) and 27 regional offices at June 30, 2009 across the country to implement its mission to prevent kidney and urinary tract diseases, improve the health and well-being of individuals and families affected by these diseases and increase the availability of all organs for transplantation. Founded in 1950 to address the critical impact of the diseases referred to above, the Foundation conducts nationwide educational campaigns about the role of the kidney in maintaining overall health, the importance of early detection and organ donation and transplantation. The Foundation maintains a Washington office to represent the needs of its constituents by advocating for research and coverage of medications needed by those with kidney failure, and also supports an extensive scientifically meritorious research program. The Foundation’s office in Kansas City provides services and assistance to all Foundation Affiliates regarding organizational and fund-raising matters.

Under the provisions of a charter with the Foundation, each Affiliate must meet certain requirements regarding organizational structure, program services and fund-raising.

During fiscal 2009, the Foundation assumed the assets and liabilities of thirteen Affiliates and now conducts operations of the former Affiliates in its own name as divisions. The difference between the assets and liabilities assumed by the Foundation was recorded as a contribution upon transfer from the Affiliates to the Foundation. The results of these Affiliates’ operations for the period following assumption of the assets and liabilities through year-end are included in the accompanying consolidated financial statements. Total assets and liabilities and the net assets received associated with the reorganization of Affiliates to divisions are approximately as follows:

Assets	\$ 8,179,000
Liabilities	<u>338,000</u>
Net assets received associated with the reorganization of Affiliates to divisions	<u>\$ 7,841,000</u>

Revenues and expenses generated for the thirteen Affiliates after becoming divisions were approximately \$9,651,000 and \$8,144,000, respectively, and are included in the accompanying consolidated statement of activities.

Amounts received from the former Affiliates that carried donor restrictions retained those restrictions in the accompanying consolidated financial statements.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis and include an entity in which the Foundation is the sole corporate member and an indirectly controlled international not-for-profit affiliate in Belgium, known as Kidney Disease Improving Global Outcomes (“KDIGO”), that the Foundation has elected to consolidate. All significant intercompany activity has been eliminated in consolidation.

Components of Program Services

Research

The Foundation sponsors research that seeks answers to key questions relating to kidney disease. Grants are provided for studies aimed at finding treatments or to prevent kidney disease as well as to improve the quality of life and long-term outlook for people with chronic kidney disease.

Public Health Education

The Foundation’s public health education efforts strive to teach the public about kidney-related issues such as causes of kidney disease and the importance of early detection. These efforts are made through the disbursement of educational brochures to the public, online health guides on the Foundation’s website and through media outreach.

Professional Education

The Foundation’s program provides medical and health care professionals with tools needed to provide optimum patient care. Products provided include toolkits, best practices, medical journals and professional education conferences.

Patient Services

The patient services programs include initiatives to improve patients’ health and quality of life. Programs include the development of evidence-based practice guidelines for kidney disease treatment, free screening for individuals at risk through the Kidney Early Evaluation Program (“KEEP”) and patient empowerment programs that encourage patients to take charge of their own health care.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Community Services/Program Assistance to Affiliates

The Foundation conducts programs to detect disease or health problems, develops plans to improve community health practices and conducts rehabilitation programs. In addition, the Foundation provides consultation, guidance, training and leadership to its Affiliates and other organizations. Specific guidance is provided with informational booklets that cover issues such as patient transportation programs, drug and blood banks, and screening and detection programs.

Management and General

Included within management and general expenses are approximately \$3,750,000 and \$2,196,000 in costs relating to the reorganization of Affiliates to divisions for the fiscal years ended June 30, 2009 and 2008, respectively. These expenses are related to building the necessary infrastructure the Foundation needs to accommodate the new division business model.

Fund Accounting and Net Asset Classifications

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the Foundation's accounts are maintained in accordance with the principles of fund accounting. Separate accounts are maintained for each fund; however, in the accompanying consolidated financial statements, funds that have similar characteristics have been combined into three net asset classes: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets: Unrestricted net assets include expendable resources over which the Foundation's Board of Directors has discretionary control and are used to carry out the Foundation's operations in accordance with its bylaws. Included in unrestricted net assets are funds used to account for fixed asset acquisitions, improvements and related activities.

Temporarily Restricted Net Assets: Temporarily restricted net assets include resources expendable only for those purposes specified by the donor or grantor. The restrictions are satisfied either by the passage of time or by actions of the Foundation.

Permanently Restricted Net Assets: Permanently restricted net assets include resources subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Support and Revenue

Grants and contributions are recorded as revenue when received or pledged unconditionally, at fair value. Contributions received with donor stipulations that limit the use of the donated assets are reported as temporarily restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Due from Affiliates and Share of Affiliate Contributions

The Foundation and its Affiliates have agreements under which a portion of contributions received by Affiliates is shared with the Foundation. Amounts received but not remitted by Affiliates are recorded by the Foundation as due from Affiliates. The Affiliates' share of contributions solicited by Affiliates and received directly by the Foundation is credited to Affiliate receivables.

From time to time, the Foundation makes cash advances or short-term loans to various Affiliates for the purpose of funding operations. The loans are interest bearing (at approximately 5% per annum) and repayable based on mutually agreeable terms. These advances and short-term loans are included in due from Affiliates in the accompanying consolidated balance sheet.

Expense Allocations

The majority of expenses can generally be directly identified with program or supporting services to which they relate and are allocated accordingly. Other expenses have been allocated among program and supporting service classifications primarily on the basis of the employees' time allocations or other methods determined by management.

Deferred Income

Deferred income consists primarily of amounts received in advance for contracted programs, membership dues and journal subscriptions that apply to future periods. Membership dues and subscription revenue are recognized as revenue over the respective membership and subscription periods. Revenues related to contracted programs are recognized upon expended efforts or progression of the program in accordance with the applicable agreement.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Donated Services

The Foundation's volunteers, comprised of physicians, allied health professionals, business and community leaders, kidney patients and their families and others committed to the Foundation's mission, have made significant contributions of their time to the Foundation's programs and supporting services. The value of such volunteers' services has not been reflected in the accompanying consolidated financial statements as it does not meet the criteria for revenue recognition established by Statement of Financial Accounting Standards ("SFAS") 116, *Accounting for Contributions Received and Contributions Made*.

Cash and Cash Equivalents

The Foundation considers highly liquid financial instruments, excluding cash held in trust or held as part of the investment portfolio, with maturities of three months or less when purchased to be cash equivalents.

Of the \$2,972,000 of cash and cash equivalents at June 30, 2009, approximately \$1,441,000 is held by one financial institution. The amount of cash and cash equivalents held may exceed federally insured limits.

Inventories

Inventories, which consist of educational publications in print and on CD-ROM, are stated at the lower of cost or market determined by the first-in, first-out method.

Investments and Investment Income

The Foundation carries investments in marketable equity securities (including equity funds) and all investments in debt securities at their fair values based on quoted market prices and published unit values in the accompanying consolidated balance sheet.

Income earned from investments, including realized and unrealized gains and losses, is recorded in the net asset class owning the assets with the exception of permanently restricted net assets. Income earned from permanently restricted investments, including realized and unrealized gains and losses, is recorded as temporarily restricted or unrestricted purposes as specified by the donor.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Fixed Assets

Fixed assets are stated on the basis of cost or, as to donated assets, fair value on the date donated. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the remaining period of the lease or their estimated useful lives.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2008 from which the summarized information was derived.

Reclassifications

Certain reclassifications, which are not significant, have been made to the prior year financial statements to conform to the current year's presentation.

Recently Issued Accounting Standard

In May 2009, the FASB issued FASB SFAS 164, *Not-for-Profit Organizations: Mergers and Acquisitions*. SFAS 164 amends the accounting literature for business combinations between two or more not-for-profit entities and establishes principles and requirements for how a not-for-profit entity determines whether a combination is an acquisition or merger and based on that

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

determination how the transaction is accounted for. It also provides guidance on accounting for intangible assets after a merger or acquisition. Additionally, SFAS 164 requires enhanced disclosure within the notes to the financial statements. SFAS 164 is effective in the first fiscal year beginning after December 15, 2009.

2. Tax-Exempt Status

The Foundation is a not-for-profit voluntary health agency as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Foundation is exempt from Federal income taxes under Section 501(a) of the Code and has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code. The Foundation also is exempt from New York State and City income taxes. Contributions to the Foundation are deductible for income tax purposes to the maximum extent allowed under the Code.

3. Investments

The fair value of investments and investments held under split-interest agreements at June 30, 2009 and 2008 consisted of the following:

	Fair Value	
	2009	2008
International equity fund	\$ 1,437,894	\$ 2,108,479
Fixed income securities fund	3,808,428	5,135,417
iShares index funds	–	5,195,101
Small cap stock fund	–	725,473
U.S. equities	4,113,725	–
U.S. government securities	803,882	606,239
Other assets	451,088	–
	<u>\$ 10,615,017</u>	<u>\$ 13,770,709</u>

Included in the above are assets held under split-interest agreements in the amount of approximately \$1,159,000 and \$1,156,000 at June 30, 2009 and 2008, respectively (see Note 13).

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

At June 30, 2008, investments include amounts held in trust of approximately \$476,000. At June 30, 2009, there are no amounts held in trust.

At June 30, 2009 and 2008, approximately \$7,800,000 and \$11,300,000, respectively, of the investments relate to temporarily restricted research endowment funds.

The Foundation invests in various investment securities which 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 accompanying consolidated balance sheet.

4. Fair Value Measurements

Effective July 1, 2008, the Foundation adopted the provisions of SFAS 157, which establishes a hierarchical disclosure framework for measuring fair value which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace, including the existence and transparency of transactions between market participants. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in an orderly market generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

As prescribed by SFAS 157, investments measured and reported at fair value are classified and disclosed in one of the following categories:

- *Level 1* – Quoted prices are available in active markets for identical investments as of the reporting date.
- *Level 2* – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- *Level 3* – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Foundation uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk. The following table presents the financial instruments as of June 30, 2009, by caption on the consolidated balance sheet within the SFAS 157 valuation hierarchy defined above:

	Fair Value			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments				
International equity fund	\$ 1,437,894	\$ –	\$ –	\$ 1,437,894
Fixed income securities fund	3,808,428	–	–	3,808,428
U.S. equities	4,113,725	–	–	4,113,725
U.S. government securities	803,882	–	–	803,882
Other assets	451,088	–	–	451,088
Total investments	10,615,017	–	–	10,615,017
Contribution receivable	–	–	218,919	218,919
Total assets	\$ 10,615,017	\$ –	\$ 218,919	\$ 10,833,936
Liabilities:				
Payable to beneficiaries	\$ –	\$ –	\$ 441,672	\$ 441,672
Total liabilities	\$ –	\$ –	\$ 441,672	\$ 441,672

**Level 3 Assets and Liabilities
Year Ended June 30, 2009**

	Contribution Receivable	Payable to Beneficiaries
Balance, beginning of year	\$ 92,976	\$ 413,701
Contributions	250,606	–
Payments	(56,641)	(58,465)
Fair value adjustment	(68,022)	86,436
Balance, end of year	\$ 218,919	\$ 441,672

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

The following methods and assumptions were used by the Foundation for fair value measurements made in the accompanying consolidated financial statements in accordance with SFAS 157:

Contribution receivable: Contribution receivable is recorded at fair value based on the present value of future cash flows, with consideration of expectations about possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. The fair value measurements also include consideration of donor's credit risk.

Payable to beneficiaries: Payable to beneficiaries represents the obligation to beneficiaries of split-interest agreements and is recorded at fair value based on the present value of the future cash out flows, with consideration of expectations above possible variations in the amount and/or timing of the cash out.

5. Other Receivables

Other receivables as of June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Contributions receivable	\$ 596,057	\$ 135,648
Beneficial interest in charitable remainder trusts and estates	779,309	492,944
Contractual grants and miscellaneous receivables	1,641,815	1,062,253
Receivables from dissolved Affiliates	1,011,220	2,541,460
	<u>\$ 4,028,401</u>	<u>\$ 4,232,305</u>

One Affiliate resolved to dissolve in 2009 and contribute its net assets to the Foundation. Because the net assets had not been transferred to the Foundation as of June 30, 2009, they are recognized as a receivable. During 2008, two affiliates resolved to dissolve and contribute their net assets to the Foundation, and as such were recognized as receivable at June 30, 2008.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

5. Other Receivables (continued)

Included in other receivables are contributions receivable which represent unconditional promises to give. At June 30, 2009 and 2008, these contributions receivable, with the non-current portion discounted to present value, are due to be collected as follows:

	<u>2009</u>	<u>2008</u>
Within one year	\$ 377,138	\$ 42,672
Two to five years	286,941	104,357
Discount to present value	(68,022)	(11,381)
	<u>\$ 596,057</u>	<u>\$ 135,648</u>

The discount rates to present value varied from 0.56% to 6.00%.

6. Fixed Assets

Furniture and equipment, leasehold improvements, capitalized software and accumulated depreciation and amortization as of June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Furniture and equipment	\$ 1,845,634	\$ 1,450,262
Leasehold improvements	248,457	224,176
Capitalized software	147,043	130,172
	<u>2,241,134</u>	<u>1,804,610</u>
Less accumulated depreciation and amortization	1,343,062	1,146,482
	<u>\$ 898,072</u>	<u>\$ 658,128</u>

7. Deferred Income

Deferred income as of June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Medical programs	\$ 3,045,920	\$ 3,768,817
Memberships and subscriptions	181,067	321,458
Special events	511,884	327,194
	<u>\$ 3,738,871</u>	<u>\$ 4,417,469</u>

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

8. Retirement/Savings Plan

The Foundation has a contributory retirement/savings plan. The plan covers substantially all full-time employees who meet certain age and service requirements. Under the terms of the plan, contributions are made under Section 403(b) of the Code and are invested, at the discretion of the plan participant, in one or more of the investment vehicles available under the plan. Pension expense for the years ended June 30, 2009 and 2008 amounted to approximately \$1,200,000 and \$831,000, respectively. The Foundation has a Section 457(f) Senior Staff Flexible Benefit Plan (the "Plan") that provides senior management employees with a benefit allowance contributed by the Foundation, which can be used for various benefit options, including a capital accumulation account. Benefit expense related to the Plan for the years ended June 30, 2009 and 2008 totaled approximately \$80,000 and \$71,000, respectively. The fully funded liability related to the Plan amounted to approximately \$256,000 and \$200,000 at June 30, 2009 and 2008, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

Further, the Foundation has a Section 457(f) Supplemental Executive Retirement Plan ("SERP") for one key employee. Benefit expense related to the SERP for the years ended June 30, 2009 and 2008 totaled approximately \$147,000 and \$101,000, respectively. The fully funded liability related to the plan amounted to approximately \$486,000 and \$332,000 at June 30, 2009 and 2008, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

9. Commitments

The Foundation occupies premises under non-cancelable operating leases in effect through 2021. Under the terms of these operating leases, rental payments increase annually. However, for financial statement purposes, rent expense is recorded on the straight-line basis over the term of the lease. The difference between rental payments made under the lease and rent expense calculated on the straight-line basis is recorded as deferred rent. At June 30, 2009 and 2008, deferred rent of approximately \$518,000 and \$466,000, respectively, is reflected in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

Rent expense approximated \$2,100,000 and \$1,400,000 for the years ended June 30, 2009 and 2008, respectively.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

9. Commitments (continued)

Approximate future minimum lease payments are as follows:

2010	\$ 1,882,000
2011	1,526,000
2012	1,371,000
2013	1,152,000
2014	1,078,000
Thereafter	6,710,000
	<u>\$ 13,719,000</u>

The Foundation has a line of credit not to exceed \$3,000,000 at June 30, 2009. At June 30, 2009, there was no balance outstanding under this credit line.

10. Awards and Grants

As of June 30, 2009 and 2008, the Foundation has entered into conditional multi-year research grant commitments. The Foundation recognizes as expense the portion of the research grant award that is unconditional in the year it becomes unconditional. The Foundation has expensed research grants of approximately \$3,700,000 and \$3,100,000 for the years ended June 30, 2009 and 2008, respectively.

The outstanding commitments for research projects, which are conditional at June 30, 2009, are scheduled for funding approximately as follows: fiscal 2010 – \$1,318,000; and fiscal 2011 – \$58,000. These projects will be funded by unrestricted and certain temporarily restricted net assets and support and revenue to be generated by the Foundation.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

11. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes at June 30, 2009 and 2008:

	2009	2008
Research endowment funds	\$ 7,824,862	\$ 11,302,342
Other research	837,439	548,694
Transplantation guidelines	–	100,000
Transplant games and other programs	1,740,730	1,158,537
	\$ 10,403,031	\$ 13,109,573

Temporarily restricted net assets were released from restrictions in fiscal 2009 and 2008 as follows:

	2009	2008
Research endowment funds	\$ 477,882	\$ 460,902
Other research	1,060,393	2,049,056
Transplantation guidelines	100,000	473,976
Transplant games and other programs	2,345,113	253,827
	\$ 3,983,388	\$ 3,237,761

12. Permanently Restricted Net Assets

Permanently restricted net assets consist of investments that are to be held in perpetuity. Income on permanently restricted net assets held at June 30, 2009 and 2008 is to be used as follows:

	2009	2008
Enuresis research	\$ 174,237	\$ 174,237
Other research	425,638	93,641
Patient services	117,432	55,000
Community services	90,680	131,353
Professional education	11,929	11,929
Public education	97,872	70,616
Undesignated programs	87,603	87,603
	\$ 1,005,391	\$ 624,379

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

12. Permanently Restricted Net Assets (continued)

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (“FSP FAS 117-1”), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”) and additional disclosures about an organization’s endowment funds. New York State has not yet adopted UPMIFA. Therefore, UPMIFA has had no effect on the Foundation’s accounting for its endowment.

The Foundation’s permanently restricted endowment consists of permanently restricted net assets held primarily for research and patient support. The endowment is made up of donor-restricted funds. The Board of Directors of the Foundation has interpreted New York State law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are expended and released from restrictions.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the endowment fund programs while seeking to maintain the purchasing power of the funds. The Foundation’s long-term strategy is to target a diversified asset allocation that includes both equity and fixed income strategies. During 2009, the Foundation elected to invest approximately \$831,000 of its permanently restricted assets in cash and cash equivalents due to current market conditions in an attempt to preserve the principal on such assets. Endowment assets are appropriated for expenditure based on the budget and program needs. Long-term expected returns on endowment assets and the duration and preservation of the endowment funds are considered in determining budgets and appropriations for expenditure.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

12. Permanently Restricted Net Assets (continued)

Changes in endowment net assets for the year ended June 30, 2009 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ —	\$ —	\$ 624,379	\$ 624,379
Investment return:				
Investment income, net	1,314	5,438	—	6,752
Realized loss	—	—	—	—
Change in net depreciation/ appreciation on investments	—	—	—	—
Total investment income	1,314	5,438	—	6,752
Contributions	—	—	381,012	381,012
Expended and released from restrictions	(1,314)	(5,438)	—	(6,752)
Reclassification	—	—	—	—
Endowment net assets, end of year	\$ —	\$ —	\$ 1,005,391	\$ 1,005,391

13. Split-Interest Agreements

The Foundation receives contributions under charitable gift annuities. The Foundation has segregated these assets as separate and distinct funds, independent from other funds and not to be applied to payment of the debts and obligations of the Foundation or any other purpose other than annuity benefits specified in the agreements. In addition, this portfolio of assets meets all requirements concerning permissible investments and mandated reserves as required by law. The Foundation agrees to pay a stated return annually to the beneficiaries as long as they live, after which time the remaining assets are available for unrestricted use by the Foundation.

At June 30, 2009 and 2008, the total assets held under split-interest agreements were approximately \$1,159,000 and \$1,156,000, respectively, at fair value. The actuarial present value, which approximates fair value, of the Foundation's payable to beneficiaries was approximately \$442,000 and \$414,000 at June 30, 2009 and 2008, respectively, and was calculated using interest rates ranging from 3.6% to 7.4%.

Certain Affiliates have a beneficial interest in the expected cash value of the gift annuities, which was approximately \$59,000 and \$124,000 at June 30, 2009 and 2008, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

14. Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (“SFAS 165”), which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS 165 is effective for annual periods ending after June 15, 2009, and accordingly, the Foundation adopted this Standard for the June 30, 2009 financial statements. SFAS 165 requires that non public entities evaluate subsequent events through the date that the financial statements are available to be issued. The Foundation evaluated subsequent events through December 14, 2009 which is the date the Foundation’s financial statements were available to be distributed. The adoption of SFAS 165 did not affect the Foundation’s historical financial statements.

Subsequent to June 30, 2009 two additional affiliates were dissolved and reorganized as divisions of the Foundation. The net assets of these affiliates that the Foundation will be the recipient of are approximately \$425,000.