

VASCULITIS FOUNDATION

FINANCIAL STATEMENTS

**June 30, 2009
and
December 31, 2007**

IFFT & CO. PA

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Vasculitis Foundation
Gladstone, Missouri

We have audited the accompanying statements of financial position of Vasculitis Foundation (a nonprofit organization) as of June 30, 2009 and December 31, 2007 and the related statements of activities, functional expenses, and cash flows for the eighteen months ended June 30, 2009 and for the year ended December 31, 2007. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vasculitis Foundation as of June 30, 2009 and December 31, 2007, and the changes in its net assets and its cash flows for the eighteen months ended June 30, 2009 and for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, effective January 1, 2008, the Foundation adopted the provisions of Statements of Financial Accounting Standards No. 157, *Fair Value Measurements* and No. 165, *Subsequent Events*.

iffc + Co. PA

December 23, 2009

VASCULITIS FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and December 31, 2007

| ASSETS | <u>2009</u> | <u>2007</u> |
|--|-----------------------|----------------------|
| Cash and cash equivalents | \$ 86,676 | 152,339 |
| Assets held by Northland Community Foundation | 667,043 | 877,640 |
| Prepaid expenses | 1,250 | 1,643 |
| Deposits | 500 | 500 |
| Furniture and equipment, less accumulated depreciation | <u>20,938</u> | <u>667</u> |
| TOTAL ASSETS | <u>\$ 776,407</u> | <u>1,032,789</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 13,943 | 3,518 |
| Accrued liabilities | <u>4,287</u> | <u>3,613</u> |
| TOTAL LIABILITIES | 18,230 | 7,131 |
| NET ASSETS | | |
| Unrestricted | 2,623 | 203,148 |
| Unrestricted - Board designated - endowment | 111,887 | 148,057 |
| Unrestricted - Board designated - other | <u>828</u> | <u>570</u> |
| TOTAL UNRESTRICTED NET ASSETS | 115,338 | 351,775 |
| Temporarily restricted net assets | <u>642,839</u> | <u>673,883</u> |
| TOTAL NET ASSETS | <u>758,177</u> | <u>1,025,658</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 776,407</u> | <u>1,032,789</u> |

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

**VASCULITIS FOUNDATION
STATEMENTS OF ACTIVITIES**

For the Eighteen Months Ended June 30, 2009 and for the Year Ended December 31, 2007

| UNRESTRICTED NET ASSETS | <u>2009</u> | <u>2007</u> |
|--|-----------------------|----------------------|
| Revenues | | |
| General donations | \$ 310,845 | 289,263 |
| Dues | 69,699 | 54,620 |
| Memorials | 58,747 | 50,851 |
| Honors | 27,256 | 23,367 |
| Other | 2,817 | 480 |
| In-kind donations | 1,274 | 2,065 |
| Symposium revenue | 99,897 | 41,423 |
| Interest and dividends | 8,726 | 13,144 |
| Unrealized loss | (32,357) | (18,673) |
| Realized gain (loss) | (6,972) | 26,669 |
| | <u>539,932</u> | <u>483,209</u> |
| Net assets released from restrictions | <u>216,642</u> | <u>105,334</u> |
| | 756,574 | 588,543 |
| Expenses | | |
| Patient support, awareness, and research | 760,185 | 445,851 |
| Administrative | 175,597 | 109,013 |
| Fundraising | 57,229 | 39,464 |
| | <u>993,011</u> | <u>594,328</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | (236,437) | (5,785) |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Revenues | | |
| Research donations | 215,907 | 190,820 |
| Interest and dividends on temporarily restricted investments | 23,644 | 19,278 |
| Unrealized loss on temporarily restricted investments | (45,291) | (21,229) |
| Realized gain (loss) on temporarily restricted investments | (8,662) | 36,623 |
| Net assets released from restrictions | (216,642) | (105,334) |
| | <u>(31,044)</u> | <u>120,158</u> |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | (31,044) | 120,158 |
| CHANGE IN NET ASSETS | (267,481) | 114,373 |
| NET ASSETS, BEGINNING OF PERIOD | <u>1,025,658</u> | <u>911,285</u> |
| NET ASSETS, END OF PERIOD | <u>\$ 758,177</u> | <u>1,025,658</u> |

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

VASCULITIS FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the Eighteen Months Ended June 30, 2009 and for the Year Ended December 31, 2007

| | 2009 | | | 2007 | | | | |
|----------------------------|--|----------------|---------------|----------------|--|----------------|---------------|----------------|
| | Patient Support, Awareness, and Research | Administrative | Fundraising | Total | Patient Support, Awareness, and Research | Administrative | Fundraising | Total |
| Salaries and wages | \$ 116,603 | 69,962 | 25,440 | 212,005 | 76,765 | 47,696 | 14,365 | 138,826 |
| Payroll taxes and benefits | 22,198 | 17,100 | 7,244 | 46,542 | 15,073 | 11,852 | 5,282 | 32,207 |
| Newsletter | 54,679 | - | - | 54,679 | 38,907 | - | - | 38,907 |
| Member information | 67,654 | - | 33 | 67,687 | 42,948 | - | - | 42,948 |
| Supporting services | 151,955 | 67,269 | 15,209 | 234,433 | 90,759 | 33,101 | 10,347 | 134,207 |
| Medical conferences | 33,122 | - | - | 33,122 | 11,977 | - | - | 11,977 |
| Memberships | 600 | 735 | - | 1,335 | 1,079 | - | - | 1,079 |
| Symposium | 94,491 | - | - | 94,491 | 49,892 | - | - | 49,892 |
| Grants paid | 210,671 | - | - | 210,671 | 101,202 | - | - | 101,202 |
| Event costs | - | - | 9,303 | 9,303 | - | - | 9,252 | 9,252 |
| Board expenses | 8,203 | 19,754 | - | 27,957 | 7,467 | 7,467 | - | 14,934 |
| Strategic planning | - | 24 | - | 24 | 8,406 | 8,406 | - | 16,812 |
| Depreciation | - | 667 | - | 667 | 624 | 491 | 218 | 1,333 |
| Other | 9 | 86 | - | 95 | 752 | - | - | 752 |
| TOTAL EXPENSES | \$ 760,185 | 175,597 | 57,229 | 993,011 | 445,851 | 109,013 | 39,464 | 594,328 |

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

VASCULITIS FOUNDATION
STATEMENTS OF CASH FLOWS
For the Eighteen Months Ended June 30, 2009 and for the Year Ended December 31, 2007

| | <u>2009</u> | <u>2007</u> |
|--|----------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (267,481) | 114,373 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 667 | 1,333 |
| (Gain) loss on investments | 93,282 | (23,390) |
| Changes in operating assets and liabilities | | |
| Prepaid expenses | 393 | (1,643) |
| Accounts payable | 10,425 | 3,036 |
| Accrued liabilities | <u>674</u> | <u>1,411</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>(162,040)</u> | <u>95,120</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of furniture and equipment | (20,938) | - |
| Transfers of assets held by Northland Community Foundation | <u>117,315</u> | <u>(117,801)</u> |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | <u>96,377</u> | <u>(117,801)</u> |
| DECREASE IN CASH | (65,663) | (22,681) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | <u>152,339</u> | <u>175,020</u> |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 86,676</u> | <u>152,339</u> |

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

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Vasculitis Foundation is the largest patient support group and the only international organization for vasculitis patients and their loved ones. Vasculitis is a rare autoimmune disease that strikes people of all ages. There are at least fifteen known vasculitic diseases. There is no known cause or cure for vasculitis. Early diagnosis is critical to patients. Without effective treatment, the disease is fatal.

Through a newsletter, a web site, information packets, medical consultants, symposiums, as well as area contacts and chapters, the Foundation works to raise awareness of vasculitis, educate patients about the disease, and support research into the cause, cure, and treatment of the disease.

Fair Value Measurements

The financial statements reflect the adoption of Statement of Financial Accounting Standards No. 157 (SFAS No. 157), *Fair Value Measurements*. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 157 establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurement.

In accordance with SFAS No. 157, the Foundation classifies its investments into Level 1, which refers to securities traded in an active market; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available or Level 1 securities where there is a contractual restriction; and Level 3, which refers to securities not traded in an active market and for which no significant observable market inputs are available. As required by SFAS No. 157, at June 30, 2009, the Foundation's portfolio investments were classified as follows, based on fair values.

| | <u>Fair Value</u> |
|-------------------|-------------------|
| Level 1 | \$ - |
| Level 2 | 667,043 |
| Level 3 | <u>-</u> |
| Total investments | <u>\$ 667,043</u> |

Furniture and Equipment

The Foundation capitalizes all significant acquisitions of furniture and equipment, which are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The Foundation qualifies as tax exempt from Federal income tax under Section 501(c) (3) of the Internal Revenue Code.

Expense Allocation

The Foundation allocates its expenses on a functional basis among its program, administrative, and fundraising activities. Administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Cash Equivalents

The Foundation considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

Subsequent Events

Subsequent events have been evaluated through December 23, 2009, which is the date the financial statements were available to be issued.

Research Funds

All donations designated for research are placed in the Foundation's Research Fund, which supports the Foundation's Research Program. The purpose of the Research Program is to provide one-year seed grants to support pilot studies in researching the etiology; epidemiology; diagnosis; treatment, including approaches that would prevent complications; and development of coping skills for living with the disease.

Awards are provided up to \$50,000 for a one-year study and up to \$100,000 for a two-year study. Smaller awards are also allowed. Suitable applicants are medical researchers in areas such as, but not limited to, rheumatology, immunology, nephrology, otolaryngology, pulmonary and respiratory diseases, and internal medicine.

Applications are reviewed by the Foundation's Research Committee and Scientific Advisory Board. Each investigator is required to submit a six-month progress report, which includes financial data. A final report is also required and is due within sixty days of the last day of the study and must also include a financial report. Donations designated for research may not be used to support any other program or activity of the Foundation, and are classified as temporarily restricted net assets.

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform with the 2009 presentation. These reclassifications had no effect on the change in net assets.

NOTE 2 - INVESTMENTS

Investments of the Foundation are held at the Northland Community Foundation and consisted of the following at June 30, 2009 and December 31, 2007:

| | 2009 | 2007 |
|-------------------------|------------|---------|
| Money market funds | \$ 217,048 | 263,833 |
| Equities | 177,634 | 277,465 |
| Fixed income securities | 272,361 | 336,342 |
| | \$ 667,043 | 877,640 |

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at June 30, 2009 and December 31, 2007:

| | 2009 | 2007 |
|--------------------------|-----------|----------|
| Furniture and equipment | \$ 17,714 | 17,714 |
| Website costs | 28,210 | 7,272 |
| Accumulated depreciation | (24,986) | (24,319) |
| | \$ 20,938 | 667 |

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and December 31, 2007

NOTE 4 - CONCENTRATION OF CREDIT RISK

The Foundation maintains cash and investment balances at financial institutions in the Kansas City area. Balances were insured by the Federal Deposit Insurance Corporation up to \$250,000 at June 30, 2009 and \$100,000 at December 31, 2007. The uninsured balances in these accounts totaled \$5,327 at December 31, 2007. There were no uninsured balances at June 30, 2009.

NOTE 5 - SIGNIFICANT CONTRIBUTOR

A major contributor is defined as any contributor that accounts for 10% or more of total revenues. During the year ended December 31, 2007, a contribution from a major contributor accounted for 14% of total revenue. There were no major contributors for the eighteen months ended June 30, 2009.

NOTE 6 - LEASE

The Foundation leases office space under an operating lease that expired in April 2009. The lease has been on a month-to-month basis since that time. Office rent expense was \$22,300 and \$14,400 for the eighteen months ended June 30, 2009 and for the year ended December 31, 2007, respectively, and is included in supporting services on the accompanying statements of functional expenses.

The Foundation also leases certain office equipment under an operating lease that expires in June 2011. Rent expense under this lease was \$4,028 for the eighteen months ended June 30, 2009. There was no equipment lease expense for the year ended December 31, 2007. Future minimum lease payments under this operating lease are as follows:

| Year Ending | |
|-----------------|-----------------|
| <u>June 30,</u> | <u>Amount</u> |
| 2010 | \$ 3,223 |
| 2011 | <u>2,417</u> |
| | <u>\$ 5,640</u> |

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and December 31, 2007

NOTE 7 - BOARD-DESIGNATED ENDOWMENT FUNDS

The Foundation has set aside certain funds that it has designated to be treated similarly to an endowment. Such funds are to generate a long-term, total rate of return that will increase the value of the assets. The Foundation's endowment assets, which are held at the Northland Community Foundation, totaled \$111,887 at June 30, 2009.

The Foundation has established investment policies for its board-designated endowment fund. These policies provide for investing approximately 65% of the funds in the equity pool, approximately 35% of the funds in the fixed income pool, and less than 1% of the funds in the money market pool. All expenditures of these funds are approved by the Board of Directors. The following table presents a reconciliation of the beginning and ending balances of these endowment funds for the eighteen months ended June 30, 2009:

| | |
|--------------------------|-------------------|
| Balance, January 1, 2008 | \$ 148,057 |
| Contributions | - |
| Expenditures and fees | (1,598) |
| Investment income | 4,757 |
| Loss on investments | <u>(39,329)</u> |
| Balance, June 30, 2009 | <u>\$ 111,887</u> |

NOTE 8 - CONCENTRATIONS

The Foundation invests in various investment securities. 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 value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.