

VASCULITIS FOUNDATION

FINANCIAL STATEMENTS

June 30, 2012 and 2011

IFFT & CO. PA

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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, 2012 and 2011 and the related statements of activities, functional expenses, and cash flows for the years 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 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

IFFT & Co. PA

November 27, 2012

VASCULITIS FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 75,060	75,633
Funds held by Northland Community Foundation	1,031,989	855,487
Prepaid expenses	6,200	-
Deposits	500	500
Furniture and equipment, less accumulated depreciation	<u>3,489</u>	<u>17,448</u>
TOTAL ASSETS	<u>\$1,117,238</u>	<u>949,068</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 3,826	1,731
Accrued liabilities	<u>25,106</u>	<u>24,393</u>
TOTAL LIABILITIES	28,932	26,124
NET ASSETS		
Unrestricted	14,365	(111,585)
Unrestricted - Board designated - endowment	<u>147,586</u>	<u>147,396</u>
TOTAL UNRESTRICTED NET ASSETS	161,951	35,811
Temporarily restricted net assets	<u>926,355</u>	<u>887,133</u>
TOTAL NET ASSETS	<u>1,088,306</u>	<u>922,944</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,117,238</u>	<u>949,068</u>

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

VASCULITIS FOUNDATION
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
UNRESTRICTED NET ASSETS		
Revenues		
General donations	\$ 342,162	247,050
Dues	55,256	51,264
Memorials	88,564	29,425
Honors	17,454	10,492
Other	3,786	6,403
Symposium revenue	16,602	145,732
Interest and dividends	3,535	3,463
Unrealized gain (loss)	(476)	22,183
Realized gain (loss)	<u>(1,842)</u>	<u>1,942</u>
	525,041	517,954
Net assets released from restrictions	<u>281,065</u>	<u>210,026</u>
	806,106	727,980
Expenses		
Patient support, awareness, and research	509,031	639,221
Administrative	76,885	67,908
Fundraising	<u>94,050</u>	<u>47,635</u>
	<u>679,966</u>	<u>754,764</u>
CHANGE IN UNRESTRICTED NET ASSETS	126,140	(26,784)
TEMPORARILY RESTRICTED NET ASSETS		
Revenues		
Restricted donations	304,217	287,861
Interest and dividends	12,588	11,868
Unrealized gain	4,594	24,145
Realized gain (loss)	(1,112)	12,177
Net assets released from restrictions	<u>(281,065)</u>	<u>(210,026)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>39,222</u>	<u>126,025</u>
CHANGE IN NET ASSETS	165,362	99,241
NET ASSETS, BEGINNING OF YEAR	<u>922,944</u>	<u>823,703</u>
NET ASSETS, END OF YEAR	<u>\$ 1,088,306</u>	<u>922,944</u>

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

VASCULITIS FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2012 and 2011

	2012				2011			
	Patient Support, Awareness, and Research	Administrative	Fundraising	Total	Patient Support, Awareness, and Research	Administrative	Fundraising	Total
Salaries and wages	\$ 79,354	33,042	-	112,396	99,481	21,694	8,795	129,970
Payroll taxes and benefits	12,446	7,592	2,077	22,115	16,226	8,594	3,647	28,467
Newsletter	37,944	-	-	37,944	38,526	-	-	38,526
Member information	33,796	-	-	33,796	78,285	-	-	78,285
Medical awareness	-	-	-	-	344	-	-	344
Supporting services	124,376	19,738	47,136	191,250	92,160	29,528	14,373	136,061
Medical conferences	24,429	-	-	24,429	3,046	-	-	3,046
Memberships	600	-	-	600	600	-	-	600
Symposium	22,064	-	-	22,064	182,905	-	-	182,905
Grants paid	149,937	-	-	149,937	112,391	-	-	112,391
Event costs	-	-	44,837	44,837	-	-	20,820	20,820
Board expenses	13,616	13,023	-	26,639	4,636	4,602	-	9,238
Depreciation	10,469	3,490	-	13,959	10,468	3,490	-	13,958
Other	-	-	-	-	153	-	-	153
TOTAL EXPENSES	\$ 509,031	76,885	94,050	679,966	639,221	67,908	47,635	754,764

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

VASCULITIS FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 165,362	99,241
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	13,959	13,958
Realized (gain) loss on investments	2,954	(14,119)
Unrealized (gain) on investments	(4,118)	(46,328)
Changes in operating assets and liabilities		
Prepaid expenses	(6,200)	-
Accounts payable	2,095	(17,088)
Accrued liabilities	713	19,770
Deferred revenue	-	(42,740)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>174,765</u>	<u>12,694</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Transfers from Northland Community Foundation	138,989	162,512
Transfers to Northland Community Foundation	<u>(314,327)</u>	<u>(217,656)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(175,338)</u>	<u>(55,144)</u>
 CHANGE IN CASH	(573)	(42,450)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>75,633</u>	<u>118,083</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 75,060</u>	<u>75,633</u>

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

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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 website, 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.

Donated Materials and Services

Donated materials are reflected as contributions in the accompanying financial statements at their fair values at the date of receipt. The Foundation records donated services to the extent that they create or enhance non-financial assets or that they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation had \$16,110 and \$58,294 of in-kind contributions for research and travel expenses for the years ended June 30, 2012 and 2011, respectively.

Income Taxes

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

The Foundation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Foundation is subject to income tax regulations in the U.S. federal jurisdiction and certain state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Foundation is no longer subject to income tax examinations by the applicable tax authorities for the years before 2009. If any were to be incurred, the Foundation's policy is to record penalties and interest assessed by income tax authorities as operating expenses.

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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. Included in cash equivalents at June 30, 2012 and 2011 was \$38,403 and \$38,271, respectively, held in money market funds that were not insured by the Federal Deposit Insurance Corporation.

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, including 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 revenues and net assets.

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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 items in the 2011 financial statements have been reclassified to conform with the 2012 presentation. These reclassifications had no effect on the previously reported change in net assets.

Subsequent Events

Subsequent events have been evaluated through November 27, 2012, which is the date the financial statements were available to be issued.

NOTE 2 - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. In accordance with ASC 820, the Foundation classifies its assets and liabilities into Level 1 (securities valued using quoted market prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following are descriptions of the valuation methodologies and inputs for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

- Funds held by the Northland Community Foundation are valued based on quoted prices for the underlying assets or liabilities and are classified within Level 2 of the fair value hierarchy.

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 - FAIR VALUE MEASUREMENTS - Continued

The following tables set forth by level within the fair value hierarchy the Foundation's assets at fair value as of June 30, 2012 and 2011:

Assets at Fair Value as of June 30, 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held by the Northland Community Foundation				
Money market pool	\$ -	483,817	-	483,817
Fixed income pool	-	347,126	-	347,126
Equity pool	-	201,046	-	201,046
	<u>\$ -</u>	<u>1,031,989</u>	<u>-</u>	<u>1,031,989</u>

Assets at Fair Value as of June 30, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held by the Northland Community Foundation				
Money market pool	\$ -	287,445	-	287,445
Fixed income pool	-	342,733	-	342,733
Equity pool	-	225,309	-	225,309
	<u>\$ -</u>	<u>855,487</u>	<u>-</u>	<u>855,487</u>

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 17,714	17,714
Website costs	49,147	49,147
Accumulated depreciation	<u>(63,372)</u>	<u>(49,413)</u>
	<u>\$ 3,489</u>	<u>17,448</u>

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June 30, 2012 and 2011

NOTE 4 - LEASES

The Foundation leases office space under an operating lease that expires in October 2013. Office rent expense was \$17,192 and \$19,143 for the years ended June 30, 2012 and 2011, respectively. The Foundation also leases certain office equipment under operating leases that expire in April 2013. Rent expense under these leases was \$4,306 and \$5,197 for the years ended June 30, 2012 and 2011, respectively. These amounts are included in supporting services on the accompanying statements of functional expenses.

Future minimum lease payments under these operating leases are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2013	\$ 16,643
2014	<u>4,800</u>
	<u>\$ 21,443</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Research	\$ 834,032	803,219
Patient Education/Support	<u>92,323</u>	<u>83,914</u>
Total temporarily restricted net assets	<u>\$ 926,355</u>	<u>887,133</u>

NOTE 6 - 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 in various investment pools at the Northland Community Foundation, totaled \$147,586 and \$147,396 at June 30, 2012 and 2011, respectively.

VASCULITIS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 6 - BOARD-DESIGNATED ENDOWMENT FUNDS - Continued

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:

Balance, July 1, 2010	\$	126,725
Contributions		325
Expenditures and fees		(6,205)
Investment income		3,176
Gain on investments		<u>23,375</u>
Balance, June 30, 2011		147,396
Contributions		300
Expenditures and fees		(1,141)
Investment income		3,350
Loss on investments		<u>(2,319)</u>
Balance, June 30, 2012	\$	<u>147,586</u>

NOTE 7 - 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.