CONSOLIDATED FINANCIAL STATEMENTS

National Kidney Foundation, Inc.
Year Ended June 30, 2008
With Summarized Financial Information
for the Year Ended June 30, 2007
With Report of Independent Auditors
National Kidney Foundation, Inc.

Consolidated Financial Statements

Year Ended June 30, 2008
With Summarized Financial Information
for the Year Ended June 30, 2007

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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, 2008, 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 2007 financial statements and, in our report dated October 1, 2007, 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, 2008, 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

October 13, 2008
National Kidney Foundation, Inc.

Consolidated Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td>$6,065,638</td>
<td>$3,465,742</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>12,614,660</td>
<td>17,077,867</td>
</tr>
<tr>
<td><strong>Investments held under split-interest agreements</strong></td>
<td>1,156,049</td>
<td>1,014,056</td>
</tr>
<tr>
<td><strong>Due from Affiliates, principally share of Affiliate contributions, less allowance for uncollectible amounts of $107,255 in 2008 and $155,667 in 2007</strong></td>
<td>1,718,416</td>
<td>1,974,450</td>
</tr>
<tr>
<td><strong>Other receivables</strong></td>
<td>4,232,305</td>
<td>3,566,862</td>
</tr>
<tr>
<td><strong>Inventories</strong></td>
<td>526,004</td>
<td>538,793</td>
</tr>
<tr>
<td><strong>Prepaid expenses</strong></td>
<td>1,405,076</td>
<td>563,976</td>
</tr>
<tr>
<td><strong>Fixed assets, at cost, less accumulated depreciation and amortization</strong></td>
<td>658,128</td>
<td>559,377</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>51,553</td>
<td>34,049</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$28,427,829</td>
<td>$28,795,172</td>
</tr>
</tbody>
</table>

**Liabilities and net assets**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounts payable and accrued expenses</strong></td>
<td>$5,066,250</td>
<td>$3,438,690</td>
</tr>
<tr>
<td><strong>Payable to beneficiaries</strong></td>
<td>413,701</td>
<td>362,451</td>
</tr>
<tr>
<td><strong>Funds held in trust</strong></td>
<td>475,841</td>
<td>516,982</td>
</tr>
<tr>
<td><strong>Deferred income</strong></td>
<td>4,417,469</td>
<td>4,327,302</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>10,373,261</td>
<td>8,645,425</td>
</tr>
</tbody>
</table>

Commitments

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>4,320,616</td>
<td>4,270,920</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>13,109,573</td>
<td>15,704,590</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>624,379</td>
<td>174,237</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>18,054,568</td>
<td>20,149,747</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$28,427,829</td>
<td>$28,795,172</td>
</tr>
</tbody>
</table>

See accompanying notes.
National Kidney Foundation, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2008
With Summarized Financial Information for the Year Ended June 30, 2007

<table>
<thead>
<tr>
<th>Support, revenue and reclassifications</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>2008 Total</th>
<th>2007 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support from the public:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Received directly — contributions</td>
<td>$3,639,722</td>
<td>$958,523</td>
<td>$ —</td>
<td>$4,598,245</td>
<td>$4,916,019</td>
</tr>
<tr>
<td>Received indirectly — share of Affiliate contributions</td>
<td>6,976,589</td>
<td>—</td>
<td>—</td>
<td>6,976,589</td>
<td>6,702,688</td>
</tr>
<tr>
<td>Received indirectly — contributions</td>
<td>— 220,940</td>
<td>—</td>
<td>—</td>
<td>220,967</td>
<td>192,890</td>
</tr>
<tr>
<td>Revenues from special events</td>
<td>$3,436,091</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less direct benefit to donor costs</td>
<td>— 416,124</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total support from the public</td>
<td>13,857,218</td>
<td>958,550</td>
<td>—</td>
<td>14,815,768</td>
<td>12,746,498</td>
</tr>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program service support and fees</td>
<td>18,151,344</td>
<td>—</td>
<td>—</td>
<td>18,151,344</td>
<td>19,382,676</td>
</tr>
<tr>
<td>Royalties</td>
<td>1,998,450</td>
<td>—</td>
<td>—</td>
<td>1,998,450</td>
<td>1,692,482</td>
</tr>
<tr>
<td>Dues — professional members</td>
<td>655,469</td>
<td>—</td>
<td>—</td>
<td>655,469</td>
<td>850,373</td>
</tr>
<tr>
<td>Investment (loss) income, including net realized and unrealized gains (losses) of $(1,943,667) in fiscal 2008 and $1,520,938 in fiscal 2007</td>
<td>210,949</td>
<td>(1,084,392)</td>
<td>—</td>
<td>(873,443)</td>
<td>2,233,111</td>
</tr>
<tr>
<td>Other, net</td>
<td>313,585</td>
<td>—</td>
<td>—</td>
<td>313,585</td>
<td>(89,997)</td>
</tr>
<tr>
<td>Total revenue and support</td>
<td>35,187,015</td>
<td>(125,842)</td>
<td>—</td>
<td>35,061,173</td>
<td>35,815,143</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>3,237,761</td>
<td>(3,237,761)</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total support, revenue and reclassifications</td>
<td>38,424,776</td>
<td>(3,363,603)</td>
<td>—</td>
<td>35,061,173</td>
<td>35,815,143</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>3,616,592</td>
<td>—</td>
<td>—</td>
<td>3,616,592</td>
<td>3,074,376</td>
</tr>
<tr>
<td>Public health education</td>
<td>4,678,716</td>
<td>—</td>
<td>—</td>
<td>4,678,716</td>
<td>5,627,218</td>
</tr>
<tr>
<td>Professional education</td>
<td>11,731,260</td>
<td>—</td>
<td>—</td>
<td>11,731,260</td>
<td>11,290,412</td>
</tr>
<tr>
<td>Patient services</td>
<td>6,862,915</td>
<td>—</td>
<td>—</td>
<td>6,862,915</td>
<td>4,987,289</td>
</tr>
<tr>
<td>Community services and assistance to Affiliates</td>
<td>5,198,316</td>
<td>—</td>
<td>—</td>
<td>5,198,316</td>
<td>5,387,417</td>
</tr>
<tr>
<td>Total program services</td>
<td>31,786,899</td>
<td>—</td>
<td>—</td>
<td>31,786,899</td>
<td>28,366,712</td>
</tr>
<tr>
<td>Supporting services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fundraising</td>
<td>2,184,362</td>
<td>—</td>
<td>—</td>
<td>2,184,362</td>
<td>1,990,012</td>
</tr>
<tr>
<td>Management and general (Note 1):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative</td>
<td>5,572,935</td>
<td>—</td>
<td>—</td>
<td>5,572,935</td>
<td>3,861,258</td>
</tr>
<tr>
<td>Reorganization of Affiliates to divisions</td>
<td>2,194,649</td>
<td>—</td>
<td>—</td>
<td>2,194,649</td>
<td>—</td>
</tr>
<tr>
<td>Total management and general</td>
<td>7,767,584</td>
<td>—</td>
<td>—</td>
<td>7,767,584</td>
<td>3,861,258</td>
</tr>
<tr>
<td>Total supporting services</td>
<td>9,951,946</td>
<td>—</td>
<td>—</td>
<td>9,951,946</td>
<td>5,831,270</td>
</tr>
<tr>
<td>Total expenses</td>
<td>41,738,845</td>
<td>—</td>
<td>—</td>
<td>41,738,845</td>
<td>34,217,982</td>
</tr>
<tr>
<td>Net assets received (liabilities assumed) associated with reorganization of Affiliates to divisions</td>
<td>3,363,765</td>
<td>768,586</td>
<td>450,142</td>
<td>4,582,493</td>
<td>(163,726)</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>49,694</td>
<td>(2,595,017)</td>
<td>450,142</td>
<td>(2,095,179)</td>
<td>2,423,375</td>
</tr>
<tr>
<td>Net assets at beginning of year</td>
<td>4,270,920</td>
<td>15,704,590</td>
<td>174,237</td>
<td>20,149,747</td>
<td>17,716,372</td>
</tr>
<tr>
<td>Net assets at end of year</td>
<td>4,320,616</td>
<td>13,109,573</td>
<td>624,379</td>
<td>18,054,568</td>
<td>20,149,747</td>
</tr>
</tbody>
</table>

See accompanying notes.
National Kidney Foundation, Inc.

Consolidated Statement of Cash Flows

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ (2,095,179)</td>
<td>$ 2,433,375</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>213,329</td>
<td>168,563</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>130,943</td>
<td>115,448</td>
</tr>
<tr>
<td>Provision for inventory obsolescence</td>
<td>68,381</td>
<td>11,373</td>
</tr>
<tr>
<td>Credit for bad debts</td>
<td>(48,412)</td>
<td>(44,333)</td>
</tr>
<tr>
<td>Net assets received (liabilities assumed) associated with reorganization of Affiliates to divisions, excluding cash</td>
<td>576,060</td>
<td>260,507</td>
</tr>
<tr>
<td>Net realized and unrealized (gains) losses on investments</td>
<td>1,943,667</td>
<td>(1,520,938)</td>
</tr>
<tr>
<td>(Increase) decrease in assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from Affiliates</td>
<td>304,446</td>
<td>273,179</td>
</tr>
<tr>
<td>Other receivables</td>
<td>(471,994)</td>
<td>(2,893,329)</td>
</tr>
<tr>
<td>Inventories</td>
<td>55,592</td>
<td>(1,881)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(782,362)</td>
<td>(89,629)</td>
</tr>
<tr>
<td>Other assets</td>
<td>(204)</td>
<td>–</td>
</tr>
<tr>
<td>Increase (decrease) in liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>738,613</td>
<td>(185,143)</td>
</tr>
<tr>
<td>Payable to beneficiaries</td>
<td>51,250</td>
<td>(6,999)</td>
</tr>
<tr>
<td>Funds held in trust</td>
<td>(41,141)</td>
<td>68,947</td>
</tr>
<tr>
<td>Deferred income</td>
<td>(55,851)</td>
<td>50,190</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>475,954</td>
<td>(1,360,670)</td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities** |         |          |
| Purchases of fixed assets | (285,001) | (109,453) |
| Proceeds from sale of investments | 15,141,909 | 14,941,048 |
| Purchases of investments | (12,732,966) | (15,009,373) |
| Net cash provided by (used in) investing activities | 2,123,942 | (177,778) |

Net increase (decrease) in cash and cash equivalents | 2,599,896 | (1,538,448) |
Cash and cash equivalents at beginning of year | 3,465,742 | 5,004,190 |
Cash and cash equivalents at end of year | $ 6,065,638 | $ 3,465,742 |

**Supplemental disclosure of cash flow information**

Unrelated business income taxes paid | $ 250 | $ 21,000 |

*See accompanying notes.*
## Consolidated Statement of Functional Expenses

**Year Ended June 30, 2008**

**With Summarized Financial Information for the Year Ended June 30, 2007**

### Program Services

<table>
<thead>
<tr>
<th>Program Services</th>
<th>Research</th>
<th>Public Health Education</th>
<th>Professional Education</th>
<th>Patient Services</th>
<th>Community Services/Assistance to Affiliates</th>
<th>Total</th>
<th>Fund-Raising</th>
<th>Management and General</th>
<th>Direct Benefit Costs and Donated Vehicle Costs and Expenses</th>
<th>Total Program and Supporting Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$280,981</td>
<td>$1,128,885</td>
<td>$1,032,966</td>
<td>$1,612,061</td>
<td>$1,556,612</td>
<td>$5,603,355</td>
<td>$943,034</td>
<td>$3,844,545</td>
<td>$--</td>
<td>$10,389,832</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>69,921</td>
<td>158,771</td>
<td>277,213</td>
<td>236,816</td>
<td>310,440</td>
<td>1,119,961</td>
<td>71,577</td>
<td>815,031</td>
<td>866,646</td>
<td>2,006,569</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>20,900</td>
<td>65,157</td>
<td>88,842</td>
<td>113,808</td>
<td>107,439</td>
<td>397,278</td>
<td>66,533</td>
<td>271,257</td>
<td>335,860</td>
<td>725,186</td>
</tr>
<tr>
<td>Awards and grants</td>
<td>2,969,846</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>2,969,846</td>
<td>82,988</td>
<td>--</td>
<td>82,988</td>
<td>3,052,834</td>
<td>2,443,858</td>
</tr>
<tr>
<td>Professional fees and contract services</td>
<td>36,694</td>
<td>127,060</td>
<td>746,114</td>
<td>204,844</td>
<td>470,711</td>
<td>1,584,723</td>
<td>115,427</td>
<td>670,126</td>
<td>783,553</td>
<td>2,368,776</td>
</tr>
<tr>
<td>Office supplies and expenses</td>
<td>53,861</td>
<td>193,067</td>
<td>211,570</td>
<td>278,487</td>
<td>127,074</td>
<td>844,059</td>
<td>33,370</td>
<td>292,554</td>
<td>320,486</td>
<td>1,377,045</td>
</tr>
<tr>
<td>Telephone</td>
<td>9,342</td>
<td>23,700</td>
<td>36,540</td>
<td>39,251</td>
<td>36,786</td>
<td>139,919</td>
<td>24,934</td>
<td>89,036</td>
<td>113,724</td>
<td>263,643</td>
</tr>
<tr>
<td>Postage and shipping</td>
<td>12,805</td>
<td>41,601</td>
<td>75,315</td>
<td>67,232</td>
<td>65,182</td>
<td>263,285</td>
<td>31,097</td>
<td>164,895</td>
<td>109,996</td>
<td>409,275</td>
</tr>
<tr>
<td>Building occupancy</td>
<td>41,726</td>
<td>131,872</td>
<td>177,401</td>
<td>234,564</td>
<td>214,627</td>
<td>789,890</td>
<td>128,776</td>
<td>541,215</td>
<td>609,991</td>
<td>1,459,581</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,702</td>
<td>7,325</td>
<td>9,376</td>
<td>10,058</td>
<td>115,898</td>
<td>147,099</td>
<td>8,183</td>
<td>28,546</td>
<td>36,729</td>
<td>150,418</td>
</tr>
<tr>
<td>Printing and publications</td>
<td>4,149</td>
<td>207,779</td>
<td>619,637</td>
<td>232,092</td>
<td>31,196</td>
<td>1,694,552</td>
<td>62,257</td>
<td>51,668</td>
<td>113,925</td>
<td>1,268,778</td>
</tr>
<tr>
<td>Meetings and travel – volunteers</td>
<td>43,071</td>
<td>186,147</td>
<td>215,185</td>
<td>324,464</td>
<td>252,838</td>
<td>1,044,899</td>
<td>23,965</td>
<td>582,527</td>
<td>733,594</td>
<td>1,775,403</td>
</tr>
<tr>
<td>Meetings and travel – staff</td>
<td>1,585</td>
<td>2,850</td>
<td>11,117</td>
<td>17,797</td>
<td>--</td>
<td>33,349</td>
<td>752</td>
<td>34,074</td>
<td>95,740</td>
<td>130,740</td>
</tr>
<tr>
<td>Transplant games</td>
<td>46,724</td>
<td>--</td>
<td>--</td>
<td>48,724</td>
<td>--</td>
<td>97,448</td>
<td>--</td>
<td>97,448</td>
<td>36,070</td>
<td>36,070</td>
</tr>
<tr>
<td>Special projects programs</td>
<td>5,835</td>
<td>2,875,721</td>
<td>7,897,799</td>
<td>2,501,639</td>
<td>553,066</td>
<td>13,034,470</td>
<td>65,059</td>
<td>97,589</td>
<td>162,648</td>
<td>15,197,118</td>
</tr>
<tr>
<td>Special projects marketing</td>
<td>--</td>
<td>236,607</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>874,155</td>
<td>1,112,852</td>
<td>238,697</td>
<td>238,697</td>
<td>1,351,549</td>
</tr>
<tr>
<td>Cost of donated vehicles</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>1,057</td>
<td>--</td>
<td>1,057</td>
<td>1,057</td>
<td>1,057</td>
</tr>
<tr>
<td>Subscriptions and publications</td>
<td>57</td>
<td>31,420</td>
<td>137</td>
<td>14,755</td>
<td>240</td>
<td>46,619</td>
<td>17,904</td>
<td>561</td>
<td>40,464</td>
<td>28,101</td>
</tr>
<tr>
<td>Direct assistance to patients</td>
<td>15,378</td>
<td>15,705</td>
<td>17,037</td>
<td>16,012</td>
<td>470,112</td>
<td>157,870</td>
<td>2,876</td>
<td>2,876</td>
<td>2,876</td>
<td>157,870</td>
</tr>
<tr>
<td>Membership dues and support</td>
<td>15,578</td>
<td>15,578</td>
<td>17,866</td>
<td>17,866</td>
<td>990</td>
<td>65,270</td>
<td>2,876</td>
<td>2,876</td>
<td>2,876</td>
<td>65,270</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>58,682</td>
<td>86,249</td>
<td>284,323</td>
<td>170,894</td>
<td>69,259</td>
<td>358,699</td>
<td>151,696</td>
<td>54,957</td>
<td>54,957</td>
<td>1,043,718</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>5,997,455</td>
<td>4,806,640</td>
<td>11,640,661</td>
<td>6,601,448</td>
<td>5,164,738</td>
<td>31,913,122</td>
<td>2,717,946</td>
<td>7,743,521</td>
<td>1,282,421</td>
<td>11,297,888</td>
</tr>
<tr>
<td>Rent</td>
<td>19,107</td>
<td>22,612</td>
<td>76,239</td>
<td>21,109</td>
<td>83,078</td>
<td>176,839</td>
<td>26,416</td>
<td>24,962</td>
<td>56,679</td>
<td>215,259</td>
</tr>
<tr>
<td>Total expenses reported by function in the statement of activities</td>
<td>5,616,592</td>
<td>4,823,253</td>
<td>11,731,260</td>
<td>6,712,521</td>
<td>5,198,216</td>
<td>31,766,899</td>
<td>2,184,342</td>
<td>7,767,584</td>
<td>1,282,421</td>
<td>11,294,627</td>
</tr>
<tr>
<td>Current year’s percentages</td>
<td>8.66%</td>
<td>11.21%</td>
<td>28.13%</td>
<td>16.72%</td>
<td>12.46%</td>
<td>76.15%</td>
<td>5.23%</td>
<td>18.61%</td>
<td>11.28%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Last year’s percentages</td>
<td>8.85%</td>
<td>10.60%</td>
<td>33.00%</td>
<td>14.59%</td>
<td>15.74%</td>
<td>82.90%</td>
<td>5.82%</td>
<td>11.28%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

*See accompanying notes.*
National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2008

1. Organization and Summary of Significant Accounting Policies

The National Kidney Foundation, Inc. (the “Foundation”), headquartered in New York City, has chartered a network of 35 Affiliates at June 30, 2008 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 2008, the Foundation assumed the assets and liabilities of seven 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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$5,525,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>943,000</td>
</tr>
<tr>
<td>Net assets received associated with the reorganization of Affiliates to divisions</td>
<td>$4,582,000</td>
</tr>
</tbody>
</table>

Revenues and expenses generated for the seven Affiliates after becoming divisions were approximately $3,475,000 and $3,403,000, 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 indirectly controlled international not-for-profit affiliate in Belgium, known as Kidney Disease Improving Global Outcomes (“KDIGO”), that the Foundation has elected to consolidate and an entity in which the Foundation is the sole corporate member. 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.
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 $2.2 million in costs relating to the reorganization of Affiliates to divisions for the fiscal year ended June 30, 2008. 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.
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.
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 No. 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 $6,065,638 of cash and cash equivalents at June 30, 2008, approximately $5,100,000 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) with readily determinable fair values and all investments in debt securities at their fair values in the accompanying consolidated balance sheet. Fair values are based on quoted market prices.

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 for purposes specified by the donor.
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, 2007 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.
National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

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

Recently Issued Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, Accounting for Uncertainty in Taxes – an Interpretation of FASB Statement 109 ("FIN 48"), which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income tax assets and liabilities. FIN 48 is effective for fiscal years beginning after December 15, 2007, and is required to be recognized as a change in accounting principle through a cumulative-effect adjustment to net assets as of the beginning of the year of adoption. The Foundation is currently evaluating the impact of adopting the provisions of FIN 48.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements ("SFAS 157"), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under U.S. generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable, and improve disclosures about those measures. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact of adopting the provisions of SFAS 157.

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.
National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

3. Investments

The fair value of investments and investments held under split-interest agreements at June 30, 2008 and 2007 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>International equity fund</td>
<td>$2,108,479</td>
<td>$2,419,068</td>
</tr>
<tr>
<td>Fixed income securities fund</td>
<td>5,135,417</td>
<td>4,851,866</td>
</tr>
<tr>
<td>iShares index funds</td>
<td>5,195,101</td>
<td>5,935,122</td>
</tr>
<tr>
<td>Small cap stock fund</td>
<td>725,473</td>
<td>941,939</td>
</tr>
<tr>
<td>Cash and U.S. Government securities</td>
<td>606,239</td>
<td>3,943,928</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13,770,709</strong></td>
<td><strong>$18,091,923</strong></td>
</tr>
</tbody>
</table>

Included in the above are assets held under split-interest agreements in the amount of approximately $1,156,000 and $1,014,000 at June 30, 2008 and 2007, respectively (see Note 12).

At June 30, 2008 and 2007, investments include amounts held in trust of approximately $476,000 and $517,000, respectively.

At June 30, 2008 and 2007, approximately $11,300,000 and $12,726,000, 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.

As of September 30, 2008, the Foundation’s investment portfolio had declined approximately $960,000 due to the market conditions.
National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

4. Other Receivables

Other receivables as of June 30, 2008 and 2007 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions receivable</td>
<td>$135,648</td>
<td>$80,190</td>
</tr>
<tr>
<td>Beneficial interest in charitable remainder trusts and</td>
<td>492,944</td>
<td>2,202,000</td>
</tr>
<tr>
<td>estates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contractual grants and miscellaneous receivables</td>
<td>1,062,253</td>
<td>1,284,672</td>
</tr>
<tr>
<td>Receivables from dissolved Affiliates</td>
<td>2,541,460</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>$4,232,305</strong></td>
<td><strong>$3,566,862</strong></td>
</tr>
</tbody>
</table>

Two Affiliates resolved to dissolve in 2008 and contribute their net assets to the Foundation. Because the net assets had not been transferred to the Foundation as of June 30, 2008, they are recognized as a receivable.

Included in other receivables are contributions receivable which represent unconditional promises to give. At June 30, 2008 and 2007, these contributions receivable, with the noncurrent portion discounted (at a rate of 6%) to present value, are due to be collected as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>$42,672</td>
<td>$30,000</td>
</tr>
<tr>
<td>Two to five years</td>
<td>104,357</td>
<td>60,000</td>
</tr>
<tr>
<td>Discount to present value</td>
<td>(11,381)</td>
<td>(9,810)</td>
</tr>
<tr>
<td></td>
<td><strong>$135,648</strong></td>
<td><strong>$80,190</strong></td>
</tr>
</tbody>
</table>
5. Fixed Assets

Furniture and equipment, leasehold improvements, capitalized software and accumulated depreciation and amortization as of June 30, 2008 and 2007 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and equipment</td>
<td>$1,450,262</td>
<td>$1,200,227</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>224,176</td>
<td>217,208</td>
</tr>
<tr>
<td>Capitalized software</td>
<td>130,172</td>
<td>90,757</td>
</tr>
<tr>
<td></td>
<td>$1,804,610</td>
<td>$1,508,192</td>
</tr>
<tr>
<td>Less accumulated</td>
<td>1,146,482</td>
<td>948,815</td>
</tr>
<tr>
<td>depreciation and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>amortization</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$658,128</td>
<td>$559,377</td>
</tr>
</tbody>
</table>

6. Deferred Income

Deferred income as of June 30, 2008 and 2007 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical programs</td>
<td>$3,768,817</td>
<td>$3,976,243</td>
</tr>
<tr>
<td>Memberships and</td>
<td>321,458</td>
<td>328,614</td>
</tr>
<tr>
<td>subscriptions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special events</td>
<td>327,194</td>
<td>22,445</td>
</tr>
<tr>
<td></td>
<td>$4,417,469</td>
<td>$4,327,302</td>
</tr>
</tbody>
</table>

7. 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, 2008 and 2007 amounted to approximately $831,000 and $680,000, respectively.
7. Retirement/Savings Plan (continued)

The Foundation has a Section 457(f) Senior Staff Flexible Benefit Plan (the “Plan”) that provides highly compensated 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, 2008 and 2007 totaled approximately $71,000 and $84,000, respectively. The fully funded liability related to the Plan amounted to approximately $200,000 and $129,000 at June 30, 2008 and 2007, 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, 2008 and 2007 totaled approximately $101,000 and $141,000, respectively. The fully funded liability related to the plan amounted to approximately $332,000 and $231,000 at June 30, 2008 and 2007, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

8. Commitments

The Foundation occupies premises under noncancelable 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, 2008 and 2007, deferred rent of approximately $466,000 and $342,000, respectively, is reflected in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

Rent expense approximated $1,400,000 and $1,224,000 for the years ended June 30, 2008 and 2007, respectively.

Approximate future minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$1,357,000</td>
</tr>
<tr>
<td>2010</td>
<td>1,369,000</td>
</tr>
<tr>
<td>2011</td>
<td>1,259,000</td>
</tr>
<tr>
<td>2012</td>
<td>1,182,000</td>
</tr>
<tr>
<td>2013</td>
<td>1,076,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>8,045,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$14,288,000</strong></td>
</tr>
</tbody>
</table>
National Kidney Foundation, Inc.

Notes to Consolidated Financial Statements (continued)

8. Commitments (continued)

The Foundation has a line of credit not to exceed $1,000,000 at June 30, 2008. At June 30, 2008, there was no balance outstanding under this credit line.

9. Awards and Grants

As of June 30, 2008 and 2007, 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 $3,100,000 and $2,444,000 for the years ended June 30, 2008 and 2007, respectively.

The outstanding commitments for research projects, which are conditional at June 30, 2008, are scheduled for funding approximately as follows: fiscal 2009 – $1,220,000 and fiscal 2010 – $50,000. These projects will be funded by unrestricted and certain temporarily restricted net assets and support and revenue to be generated by the Foundation.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes at June 30, 2008 and 2007:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research endowment funds</td>
<td>$11,302,342</td>
<td>$12,806,458</td>
</tr>
<tr>
<td>Other research</td>
<td>$548,694</td>
<td>$2,272,510</td>
</tr>
<tr>
<td>Transplantation guidelines</td>
<td>$100,000</td>
<td>$487,059</td>
</tr>
<tr>
<td>Transplant games and other programs</td>
<td>$1,158,537</td>
<td>$138,563</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13,109,573</strong></td>
<td><strong>$15,704,590</strong></td>
</tr>
</tbody>
</table>
10. Temporarily Restricted Net Assets (continued)

Temporarily restricted net assets were released from restrictions in fiscal 2008 and 2007 as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research endowment funds</td>
<td>$460,902</td>
<td>$429,945</td>
</tr>
<tr>
<td>Other research</td>
<td>$2,049,056</td>
<td>81,417</td>
</tr>
<tr>
<td>Transplantation guidelines</td>
<td>473,976</td>
<td>400,000</td>
</tr>
<tr>
<td>Transplant games and other programs</td>
<td>253,827</td>
<td>123,529</td>
</tr>
<tr>
<td></td>
<td>$3,237,761</td>
<td>$1,034,891</td>
</tr>
</tbody>
</table>

11. 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, 2008 and 2007 is to be used as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enuresis research</td>
<td>$174,237</td>
<td>$174,237</td>
</tr>
<tr>
<td>Other research</td>
<td>93,641</td>
<td></td>
</tr>
<tr>
<td>Patient services</td>
<td>55,000</td>
<td></td>
</tr>
<tr>
<td>Community services</td>
<td>131,353</td>
<td></td>
</tr>
<tr>
<td>Professional education</td>
<td>11,929</td>
<td></td>
</tr>
<tr>
<td>Public education</td>
<td>70,616</td>
<td></td>
</tr>
<tr>
<td>Undesignated programs</td>
<td>87,603</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$624,379</td>
<td>$174,237</td>
</tr>
</tbody>
</table>
12. 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, 2008 and 2007, the total assets held under split-interest agreements were approximately $1,156,000 and $1,014,000, respectively, at fair value. The actuarial present value of the Foundation’s payable to beneficiaries was approximately $414,000 and $362,000 at June 30, 2008 and 2007, respectively, and was calculated using interest rates ranging from 5% to 6%.

Certain Affiliates have a beneficial interest in the expected cash value of the gift annuities, which was approximately $124,000 and $162,000 at June 30, 2008 and 2007, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

13. Subsequent Reorganization of Affiliates to Divisions

Subsequent to June 30, 2008, four 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 $1,000,000.