

**AMERICAN KIDNEY FUND, INC.
AND AFFILIATE
Rockville, Maryland**

**CONSOLIDATED
FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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Independent Auditor's Report

Board of Directors
American Kidney Fund, Inc. and Affiliate
Rockville, Maryland

We have audited the accompanying financial statements of American Kidney Fund, Inc. and Affiliate (AKF), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Kidney Fund, Inc. and Affiliate as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Calverton, Maryland
March 21, 2013

FINANCIAL STATEMENTS

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 4,604,118	\$ 13,886,603
Investments, at market value	14,949,159	13,763,080
Pledges receivable	133,590	141,697
Donated medication inventory	1,917,399	2,168,617
Property and equipment	2,235,804	2,133,189
Other assets	595,832	587,311
TOTAL ASSETS	\$ 24,435,902	\$ 32,680,497
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,287,444	\$ 972,028
Refundable advance	100,000	-
Deferred rent	399,524	-
Annuities payable	349,784	281,221
TOTAL LIABILITIES	2,136,752	1,253,249
NET ASSETS		
Unrestricted:		
Undesignated	19,002,120	21,101,163
Board designated	-	6,796,516
Total unrestricted net assets	19,002,120	27,897,679
Temporarily restricted	3,122,013	3,354,552
Permanently restricted	175,017	175,017
Total restricted net assets	3,297,030	3,529,569
TOTAL NET ASSETS	22,299,150	31,427,248
TOTAL LIABILITIES AND NET ASSETS	\$ 24,435,902	\$ 32,680,497

The accompanying notes are an integral part of the consolidated financial statements.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Public support:						
Contributions	\$ 177,954,224	\$ 1,161,710	\$ 179,115,934	\$ 200,081,119	\$ 1,176,770	\$ 201,257,889
Planned giving	1,500,130	-	1,500,130	530,751	-	530,751
In-kind contributions	1,212,598	4,024,077	5,236,675	1,017,071	8,498,902	9,515,973
Special events, net of direct benefit donor costs of \$296,474 and \$304,160, respectively	808,206	-	808,206	638,951	-	638,951
Specialty programs	137,922	556,974	694,896	131,894	558,943	690,837
Total public support	<u>181,613,080</u>	<u>5,742,761</u>	<u>187,355,841</u>	<u>202,399,786</u>	<u>10,234,615</u>	<u>212,634,401</u>
Revenue:						
Investment income (loss)	1,040,106	3,425	1,043,531	(235,685)	4,709	(230,976)
Mailing list rental	101,471	-	101,471	99,844	-	99,844
Total revenue	<u>1,141,577</u>	<u>3,425</u>	<u>1,145,002</u>	<u>(135,841)</u>	<u>4,709</u>	<u>(131,132)</u>
Total support and revenue before net assets released from restrictions	182,754,657	5,746,186	188,500,843	202,263,945	10,239,324	212,503,269
Net assets released from restrictions	5,978,725	(5,978,725)	-	11,603,931	(11,603,931)	-
Total support and revenue	<u>188,733,382</u>	<u>(232,539)</u>	<u>188,500,843</u>	<u>213,867,876</u>	<u>(1,364,607)</u>	<u>212,503,269</u>
EXPENSES						
Program services:						
Direct patient aid	183,733,382	-	183,733,382	194,060,999	-	194,060,999
Public and professional education	8,222,284	-	8,222,284	8,799,450	-	8,799,450
Research	159,395	-	159,395	302,113	-	302,113
Community services	41,289	-	41,289	58,732	-	58,732
Total program services	<u>192,156,350</u>	<u>-</u>	<u>192,156,350</u>	<u>203,221,294</u>	<u>-</u>	<u>203,221,294</u>
Supporting services:						
Fundraising	3,981,144	-	3,981,144	3,640,323	-	3,640,323
Management and general	1,491,447	-	1,491,447	1,485,303	-	1,485,303
Total supporting services	<u>5,472,591</u>	<u>-</u>	<u>5,472,591</u>	<u>5,125,626</u>	<u>-</u>	<u>5,125,626</u>
Total expenses	<u>197,628,941</u>	<u>-</u>	<u>197,628,941</u>	<u>208,346,920</u>	<u>-</u>	<u>208,346,920</u>
CHANGE IN NET ASSETS	<u>\$ (8,895,559)</u>	<u>\$ (232,539)</u>	<u>\$ (9,128,098)</u>	<u>\$ 5,520,956</u>	<u>\$ (1,364,607)</u>	<u>\$ 4,156,349</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2012 and 2011

	Unrestricted				Total
	Undesignated	Board Designated	Temporarily Restricted	Permanently Restricted	
BEGINNING BALANCES, January 1, 2011	\$ 22,376,723	\$ -	\$ 4,719,159	\$ 175,017	\$ 27,270,899
Change in net assets	5,520,956	-	(1,364,607)	-	4,156,349
Board designation transfer	<u>(6,796,516)</u>	<u>6,796,516</u>	<u>-</u>	<u>-</u>	<u>-</u>
ENDING BALANCES, December 31, 2011	21,101,163	6,796,516	3,354,552	175,017	31,427,248
Change in net assets	(8,895,559)	-	(232,539)	-	(9,128,098)
Board designation transfer	<u>6,796,516</u>	<u>(6,796,516)</u>	<u>-</u>	<u>-</u>	<u>-</u>
ENDING BALANCES, December 31, 2012	<u>\$ 19,002,120</u>	<u>\$ -</u>	<u>\$ 3,122,013</u>	<u>\$ 175,017</u>	<u>\$ 22,299,150</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2012

	Program Services				Supporting Services			Total 2012 Expenses	
	Direct Patient Aid	Public and Professional Education	Research	Community Services	Total Program Services	Fund- Raising	Management and General		Total Supporting Services
EXPENSES									
Grants and awards	\$ 180,303,890	\$ -	\$ 140,890	\$ -	\$ 180,444,780	\$ -	\$ -	\$ -	\$ 180,444,780
Salaries and related expenses	1,945,585	3,252,307	6,383	8,107	5,212,382	1,471,459	1,099,993	2,571,452	7,783,834
Printing	28,015	584,029	97	11,780	623,921	758,650	1,339	759,989	1,383,910
Advertising and promotion	1,658	1,307,597	4	5	1,309,264	34,744	660	35,404	1,344,668
IT related costs	437,658	374,878	605	817	813,958	210,145	108,414	318,559	1,132,517
Professional fees	70,325	723,759	132	178	794,394	292,200	23,629	315,829	1,110,223
Occupancy	272,854	391,321	607	819	665,601	152,068	108,682	260,750	926,351
Postage and shipping	126,314	300,825	347	112	427,598	487,989	4,059	492,048	919,646
Depreciation and amortization	216,112	269,771	480	649	487,012	118,005	86,081	204,086	691,098
Conferences, meetings, and travel	39,274	240,439	9,052	2,780	291,545	101,335	13,616	114,951	406,496
Fairs and exhibits	-	367,933	466	13,319	381,718	5,732	-	5,732	387,450
Office supplies and expenses	124,318	99,613	152	205	224,288	43,541	27,224	70,765	295,053
Data processing	4,683	102,243	10	14	106,950	166,835	1,866	168,701	275,651
Other outside services	121,269	74,467	35	1,197	196,968	30,088	369	30,457	227,425
Telephone	21,912	59,571	44	59	81,586	45,196	7,827	53,023	134,609
Dues and subscriptions	19,515	49,960	91	58	69,624	28,536	7,688	36,224	105,848
Mailing list rental	-	23,571	-	1,190	24,761	34,621	-	34,621	59,382
Total functional expenses	<u>\$ 183,733,382</u>	<u>\$ 8,222,284</u>	<u>\$ 159,395</u>	<u>\$ 41,289</u>	<u>\$ 192,156,350</u>	<u>\$ 3,981,144</u>	<u>\$ 1,491,447</u>	<u>\$ 5,472,591</u>	197,628,941
Direct benefit to donor costs									<u>296,474</u>
TOTAL EXPENSES									<u>\$ 197,925,415</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

	Program Services				Supporting Services			Total 2011 Expenses	
	Direct Patient Aid	Public and Professional Education	Research	Community Services	Total Program Services	Fund- Raising	Management and General		Total Supporting Services
EXPENSES									
Grants and awards	\$ 190,296,386	\$ -	\$ 283,412	\$ -	\$ 190,579,798	\$ -	\$ -	\$ -	\$ 190,579,798
Salaries and related expenses	2,065,139	3,147,513	9,764	10,490	5,232,906	1,389,115	1,106,687	2,495,802	7,728,708
Professional fees	86,355	1,471,732	101	2,559	1,560,747	293,474	27,187	320,661	1,881,408
Printing	29,168	512,526	2	18,798	560,494	624,243	574	624,817	1,185,311
IT related costs	512,862	350,628	373	403	864,266	169,874	99,885	269,759	1,134,025
Advertising and promotion	1,544	1,072,520	2	3	1,074,069	43,964	631	44,595	1,118,664
Postage and shipping	123,566	294,018	311	5,768	423,663	462,417	702	463,119	886,782
Occupancy	257,142	371,081	392	424	629,039	123,423	105,173	228,596	857,635
Fairs and exhibits	6,308	613,276	2	2	619,588	13,353	455	13,808	633,396
Depreciation and amortization	197,892	245,364	302	327	443,885	92,130	80,939	173,069	616,954
Conferences, meetings, and travel	49,066	304,107	7,188	6,765	367,126	175,332	17,153	192,485	559,611
Other outside services	265,728	66,545	97	3,108	335,478	31,317	1,007	32,324	367,802
Office supplies and expenses	118,485	91,990	103	8,874	219,452	34,334	27,657	61,991	281,443
Data processing	4,875	88,068	7	8	92,958	112,979	1,994	114,973	207,931
Telephone	22,211	84,770	20	22	107,023	14,939	5,393	20,332	127,355
Dues and subscriptions	20,188	51,680	31	33	71,932	19,961	8,196	28,157	100,089
Mailing list rental	-	29,010	-	1,141	30,151	37,779	-	37,779	67,930
Loss on disposal of equipment	4,084	4,622	6	7	8,719	1,689	1,670	3,359	12,078
Total functional expenses	<u>\$ 194,060,999</u>	<u>\$ 8,799,450</u>	<u>\$ 302,113</u>	<u>\$ 58,732</u>	<u>\$ 203,221,294</u>	<u>\$ 3,640,323</u>	<u>\$ 1,485,303</u>	<u>\$ 5,125,626</u>	208,346,920
Direct benefit to donor costs									<u>304,160</u>
TOTAL EXPENSES									<u>\$ 208,651,080</u>

The accompanying notes are an integral part of the consolidated financial statements.

**AMERICAN KIDNEY FUND, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors	\$ 181,235,736	\$ 208,737,250
Cash received from special events, net	908,206	638,951
Cash received mailing list rental	101,471	99,844
Cash paid to patients, suppliers and employees	(190,701,088)	(196,787,128)
Investment income received	<u>373,136</u>	<u>358,202</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(8,082,539)</u>	<u>13,047,119</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturity of investments	14,562,689	7,612,397
Purchase of investments	(14,968,922)	(7,003,765)
Purchases of property and equipment	<u>(793,713)</u>	<u>(932,293)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,199,946)</u>	<u>(323,661)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,282,485)	12,723,458
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>13,886,603</u>	<u>1,163,145</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,604,118</u>	<u>\$ 13,886,603</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO		
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (9,128,098)	\$ 4,156,349
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation and amortization	691,098	616,954
Donated stock	(53,052)	
Loss on disposal of equipment	-	12,078
Realized and unrealized (gain) loss on investments	(726,794)	580,832
Amortization of free rent	35,280	35,280
Effects of changes in operating assets and liabilities:		
Planned giving receivables	-	19,589
Pledges receivable	(27,173)	6,238,185
Donated medication inventory	251,218	1,005,998
Other assets	(8,520)	638,270
Accounts payable and accrued expenses	315,415	(222,948)
Refundable advance	100,000	-
Deferred rent	399,524	-
Annuities payable	<u>68,563</u>	<u>(33,468)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (8,082,539)</u>	<u>\$ 13,047,119</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The American Kidney Fund, Inc. (AKF) is a nonprofit voluntary health organization that fights kidney disease through direct financial support to patients in need; health education; and prevention efforts. AKF's major sources of revenue are from contributions from the general public. The fiscal year end for both organizations is December 31. Significant accounting policies followed by AKF are presented below.

Use of Estimates

The preparation of financial statements in conformity with 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of AKF and its affiliate, the American Kidney Fund Service Organization (AKFSO). The Board approved that AKFSO would become dormant effective December 31, 2010. Intercompany transactions and balances for 2010 have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting and utilize the principles outlined in Financial Accounting Standards Board (FASB) ASC 958-205, (formerly Financial Accounting Standards (FAS) No. 117), which requires AKF to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased that are used to fund current obligations. Money market accounts and certificates of deposit held for investment are recorded and classified as investments.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for discussion of fair value measurements.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Net appreciation or depreciation in fair value of investments includes AKF's gains and losses on investments bought and sold, as well as held during the year. Investment income or loss is included in the change in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

Inventory

Inventories are stated at the lower of cost or market using the first-in, first-out method. Such inventories consist of undistributed medications utilized for the direct patient aid program and printed materials used in direct mailings for educational and fundraising purposes.

Revenue Recognition

Contributions are reported in accordance with the provisions of FASB ASC 958-605 (formally FAS No. 116, "Accounting for Contributions Received and Contributions Made").

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over an estimated useful life of three to ten years. Leasehold improvements are amortized over the life of the lease. AKF capitalizes assets over \$1,000.

Impairment of Long-Lived Assets

AKF reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Annuities Payable

AKF has received charitable gift annuities as contributions from donors who have stipulated that AKF is to make annuity payments for life to an annuitant designated by the donor with the principal reverting to AKF after the death of the annuitant. AKF has recorded the assets at fair value and the liabilities to the annuitant at the present value of the estimated future payments to be distributed by AKF to such individuals. The amount of the contribution is the difference between the asset and the liability and is recorded as unrestricted revenue, unless otherwise restricted by the donor. AKF invests these assets in cash and marketable securities in accordance with the governing state's investment regulations.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Donated assets are recognized as contribution revenue at their estimated fair market value on the date of donation.

Planned Giving

AKF is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by a probate court and the proceeds are measurable.

AKF records planned giving receivables that are expected to be collected within one year at net realizable value. Planned giving receivables that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. In 2012 and 2011, 5% was used as the discount rate. Accretion of the discounts is recognized as contribution revenue on a straight-line basis.

In-Kind Contributions

Medications and other materials that are contributed by manufacturers are included in the statements of activities within public support as in-kind contributions at their estimated fair market value on the date of donation and within program expense when distributed to patients as part of the direct patient aid program. Estimated fair market value of such donations is determined by the price available to AKF. Other in-kind contributions, such as donated property and equipment and free advertising, are included in the statement of activities within public support as in-kind contributions at their estimated fair market value on the date of donation and either capitalized, as it relates to equipment, or shown in the representative functional expense category the gift relates to.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain supporting general and administrative costs have been allocated among the programs and supporting services benefited.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following program and supporting services are included in the accompanying financial statements:

Direct Patient Aid – AKF provides direct financial assistance and in-kind grants to dialysis and kidney transplant patients and living kidney donors to help with the costs of medication, transportation, health insurance premiums, and other treatment necessities. AKF also provides financial support to pediatric kidney patients to participate in summer or day camps.

Public and Professional Education – AKF educates the American public about the prevention, symptoms, causes, treatment, and psychosocial aspects of kidney disease through a toll free help line; a wide range of printed educational materials, including selections in Spanish; organ donation educational materials; and outreach activities, including screenings for kidney disease. In addition to this, AKF conducts online professional educational conferences geared toward nephrologists/primary care physicians and other renal professionals.

Research – The Clinical Scientist in Nephrology Program enables promising young nephrologists to conduct clinical research and pursue academic careers for the benefit of patients with kidney disease. A nationally recognized panel of experts in the field selects award recipients.

Community Services – AKF sponsors a calendar art contest for pediatric kidney patients with the cover art winner receiving a weekend getaway to Washington, DC and the 12 other winners receiving prizes.

Fundraising – Provides the structure necessary to encourage and secure financial support from individuals, foundations, community groups, and corporations.

Management and General – Management and general services provide for the direction of the overall affairs of AKF through executive, financial, information technology, and administrative services.

Income Taxes

AKF and AKFSO is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is designated a "publicly supported" organization under Section 509(a)(1) of the Internal Revenue Code.

NOTE 2 – INVESTMENTS

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AKF has the ability to access.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – INVESTMENTS (CONTINUED)

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

Certificates of Deposit - Valued using identical assets or liabilities in less active markets, such as dealer or broker markets, or survey of the dealer community by obtaining broker/dealer quotes on a daily basis.

Corporate Stocks, Fixed Income Securities, and Money Market Accounts - Valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year end. Corporate stocks are further segmented by security type or security asset class.

Investment Grade Bonds and Notes - Valued using quoted market prices for similar assets and liabilities in active markets. Investment grade is defined as a BBB rating or higher.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – INVESTMENTS (CONTINUED)

The following summarizes AKF's investments using fair value measurements at December 31, 2012:

	Cost	Accumulated Net Unrealized Gains (Losses)	Level 1	Level 2	Total Fair Value
Unrestricted and temporarily:					
Money market accounts	\$ 604,633	\$ -	\$ 604,633	\$ -	\$ 604,633
Investment grade bonds and notes	5,352,054	197,982	-	5,550,035	5,550,035
Investment grade convertible bonds and notes	92,182	(2,834)	-	89,348	89,348
U.S. government securities	3,027,799	53,088	3,080,887	-	3,080,887
Corporate stock:					
Large cap	1,892,886	171,364	2,064,250	-	2,064,250
Small and mid cap	908,324	235,467	1,143,791	-	1,143,791
International	1,376,056	176,916	1,552,972	-	1,552,972
Other	830,714	(142,488)	688,226	-	688,226
	<u>14,084,648</u>	<u>689,495</u>	<u>9,134,759</u>	<u>5,639,383</u>	<u>14,774,142</u>
Total unrestricted and temporarily restricted					
Permanently restricted:					
U. S. government securities	<u>152,882</u>	<u>22,135</u>	<u>175,017</u>	<u>-</u>	<u>175,017</u>
	<u>152,882</u>	<u>22,135</u>	<u>175,017</u>	<u>-</u>	<u>175,017</u>
Total permanently restricted					
Total investments	<u>\$ 14,237,530</u>	<u>\$ 711,630</u>	<u>\$ 9,309,776</u>	<u>\$ 5,639,383</u>	<u>\$ 14,949,159</u>

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 – INVESTMENTS (CONTINUED)

The following summarizes AKF's investments using fair value measurements at December 31, 2011:

	Cost	Accumulated Net Unrealized Gains (Losses)	Level 1	Level 2	Total Fair Value
Unrestricted and temporarily:					
Money market accounts	\$ 1,404,312	\$ -	\$ 1,404,312	\$ -	\$ 1,404,312
Certificates of deposit	724,000	572	724,572	-	724,572
Investment grade bonds and notes	4,192,729	189,678	-	4,382,407	4,382,407
Investment grade convertible bonds and notes	412,966	19,121	-	432,087	432,087
U.S. government securities	928,043	30,867	958,910	-	958,910
Corporate stock:					
Large cap	2,049,959	74,549	2,124,508	-	2,124,508
Small and mid cap	889,037	59,640	948,677	-	948,677
International	1,592,579	(59,470)	1,533,109	-	1,533,109
Other	1,180,731	(101,250)	1,079,481	-	1,079,481
Total unrestricted and temporarily restricted	<u>13,374,356</u>	<u>213,707</u>	<u>8,773,569</u>	<u>4,814,494</u>	<u>13,588,063</u>
Permanently restricted:					
U. S. government securities	<u>152,882</u>	<u>22,135</u>	<u>175,017</u>	<u>-</u>	<u>175,017</u>
Total permanently restricted	<u>152,882</u>	<u>22,135</u>	<u>175,017</u>	<u>-</u>	<u>175,017</u>
Total investments	<u>\$ 13,527,238</u>	<u>\$ 235,842</u>	<u>\$ 8,948,586</u>	<u>\$ 4,814,494</u>	<u>\$ 13,763,080</u>

Investment income (loss) for the years ended December 31 consisted of the following:

	2012	2011
Dividends and interest	\$ 417,789	\$ 459,133
Realized and unrealized appreciation (depreciation)	726,794	(580,833)
Investment advisory fees	<u>(101,052)</u>	<u>(109,276)</u>
Total	<u>\$ 1,043,531</u>	<u>\$ (230,976)</u>

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 – CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject AKF to concentration of credit risk, include cash and cash equivalents, and investments. It is AKF's practice to place its cash and cash equivalents and investments in high credit quality institutions to mitigate this risk. AKF maintains its cash balances at several financial institutions which, at times, may exceed federally insured limits. At December 31, 2012 and 2011, total cash deposits held at financial institutions were \$8,694,606 and \$18,822,284, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

AKF's property and equipment consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Software and office equipment	\$ 3,764,503	\$ 3,125,706
Furniture and fixtures	203,505	183,209
Leasehold improvements	<u>356,707</u>	<u>461,139</u>
Total	4,324,715	3,770,054
Less: accumulated depreciation	<u>(2,088,911)</u>	<u>(1,636,865)</u>
Total	<u><u>\$ 2,235,804</u></u>	<u><u>\$ 2,133,189</u></u>

NOTE 5 – UNRESTRICTED NET ASSETS - BOARD DESIGNATED

At December 31, 2012, there were no funds designated for patient grants by the Board of Trustees. As of December 31, 2011, \$6,796,516 were designated by the Board of Trustees for patient grants.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Research	\$ 826,518	\$ 791,071
Patient aid	1,988,175	2,189,875
Office build out and in-kind donated rent	82,320	117,600
Public and professional education	<u>225,000</u>	<u>256,006</u>
Total	<u><u>\$ 3,122,013</u></u>	<u><u>\$ 3,354,552</u></u>

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

In accordance with donor stipulations, these assets are held (and invested) in perpetuity and the income derived from these assets is to be used as specified by the donor. Permanent restrictions were for the following purposes:

	<u>2012</u>	<u>2011</u>
Patient aid	\$ 169,026	\$ 169,026
Research	5,991	5,991
Total	<u>\$ 175,017</u>	<u>\$ 175,017</u>

NOTE 8 – COMMITMENTS

In December 2011, AKF entered into a 10 year lease for its new headquarters located in Rockville, Maryland. The lease commenced May 2012. The lease, among other items, requires rent increases based on the consumer price index, real estate taxes and operating costs. In addition, AKF is obligated under leases for office space in Long Island, New York and Chicago, Illinois. The New York lease expires on March 31, 2018, and the Illinois lease expires on December 31, 2013.

Occupancy expense for office space was \$926,166 and \$857,635 in 2012 and 2011, respectively. Approximate future minimum obligations under non-cancellable office leases and other operating leases/contracts are as follows at December 31:

	Contracts/		Total
	Office Leases	Other Leases	
2013	\$ 796,471	\$ 904,256	\$ 1,700,727
2014	842,022	728,528	1,570,550
2015	884,541	74,268	958,809
2016	907,271	11,508	918,779
2017	930,628	-	930,628
Thereafter	<u>4,150,079</u>	<u>-</u>	<u>4,150,079</u>
Total	<u>\$ 8,511,012</u>	<u>\$ 1,718,560</u>	<u>\$ 10,229,572</u>

NOTE 9 – PUBLIC SUPPORT

During 2012, AKF continued its tradition of broad-based public support with over 80,400 active contributors and 118,300 gifts. AKF received public support from two corporations in the amount of \$146,807,912 and \$162,693,870 for 2012 and 2011, respectively. These contributions represented 78% and 77% of the total support and revenue for 2012 and 2011, respectively. These two corporations are part of approximately 138 and 148 corporations which supported AKF patient grant programs during 2012 and 2011, respectively.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 10 – JOINT COSTS

For the years ended December 31, 2012 and 2011, AKF incurred joint costs of \$2,301,292 and \$1,998,536, respectively, for educational materials and activities that included fundraising appeals. The joint costs incurred for these activities in 2012 and 2011, were allocated as follows:

	<u>2012</u>	<u>2011</u>
Fundraising	\$ 1,369,128	\$ 1,143,914
Public education	932,164	854,622
Total	<u>\$ 2,301,292</u>	<u>\$ 1,998,536</u>

NOTE 11 – IN-KIND CONTRIBUTIONS

For the years ended December 31, 2012 and 2011, AKF received donated medical products and other in-kind contributions supporting patient aid programs. In-kind contributions for the years ended December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Medical products	\$ 4,024,077	\$ 8,498,902
Public service announcements	739,900	524,500
Advertising, exhibit fees, and donated items for special events	472,698	492,571
Total in-kind contributions	<u>\$ 5,236,675</u>	<u>\$ 9,515,973</u>

NOTE 12 – RETIREMENT PLANS

AKF maintains a Section 403(b) retirement plan allowing employees to elect to defer compensation up to the maximum allowed under IRS regulations. AKF contributes 2% of participants' eligible compensation, plus matches the lesser of 100% of amounts deferred under the Section 403(b) Plan, or 5% of compensation. AKF's contributions were \$334,392 and \$298,222 for 2012 and 2011, respectively.

AKF also maintains a nonqualified Section 457 deferred compensation plan allowing top hat executives to elect to defer compensation up to the maximum allowed under IRS regulations. AKF does not contribute to this plan.

NOTE 13 – ENDOWMENTS

AKF was provided permanently restricted contributions in the early 1980s. The purpose of these contributions was to support patient related grants with a balance of \$169,026, and a smaller balance of \$5,991 to support research, as of December 31, 2012 and 2011, respectively. These amounts are kept in a separate investment account and conservatively invested in fixed income securities. The interest earned on this account supports their respective purpose.

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 13 – ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law

The Board of AKF has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, AKF classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment.
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by AKF's Board. In accordance with SPMIFA, AKF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

1. The duration and preservation of the fund.
2. The purpose of AKF and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of AKF.
7. The investment policies of AKF.

Endowment net asset composition by type of fund as of December 31, 2012, were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 8,065	\$ 175,017	\$ 183,082

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 – ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended December 31, 2012, were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 19,986	\$ 175,017	\$ 195,003
Investment return:			
Investment income	<u>3,425</u>	<u>-</u>	<u>3,425</u>
Total	<u>23,411</u>	<u>175,017</u>	<u>198,428</u>
Appropriation of endowment assets for expenditure	<u>(15,346)</u>	<u>-</u>	<u>(15,346)</u>
Net assets, end of year	<u>\$ 8,065</u>	<u>\$ 175,017</u>	<u>\$ 183,082</u>

Endowment net asset composition by type of fund as of December 31, 2011, were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	<u>\$ 19,986</u>	<u>\$ 175,017</u>	<u>\$ 195,003</u>

Changes in endowment net assets for the year ended December 31, 2011, were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 31,541	\$ 175,017	\$ 206,558
Investment return:			
Investment income	<u>4,709</u>	<u>-</u>	<u>4,709</u>
Total	<u>36,250</u>	<u>175,017</u>	<u>211,267</u>
Appropriation of endowment assets for expenditure	<u>(16,264)</u>	<u>-</u>	<u>(16,264)</u>
Net assets, end of year	<u>\$ 19,986</u>	<u>\$ 175,017</u>	<u>\$ 195,003</u>

AMERICAN KIDNEY FUND, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 14 – INCOME TAXES

The financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statements of activities. As of December 31, 2012, AKF had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

NOTE 15 – SUBSEQUENT EVENTS

Management evaluated subsequent events through March 21, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to March 21, 2013, that provided additional evidence about conditions that existed at December 31, 2012, have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2012.

The accompanying notes are an integral part of the consolidated financial statements.