

**INTERNATIONAL F.O.P. ASSOCIATION, INC.
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016
AND FOR THE YEAR THEN ENDED
WITH INDEPENDENT AUDITORS' REPORT**

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AS OF DECEMBER 31, 2016 AND FOR THE YEAR THEN ENDED
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INDEPENDENT AUDITORS' REPORT

Audit Committee
Board of Directors
Kansas City, Missouri

We have audited the accompanying financial statements of

INTERNATIONAL F.O.P. ASSOCIATION, INC.

which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the 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 audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the International F.O.P. Association as of December 31, 2016, and the statement of activities, changes in net assets, cash flows and functional expenses for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Miller Haviland Ketter PC, PA". The signature is written in a cursive, flowing style.

CERTIFIED PUBLIC ACCOUNTANTS

Westwood, Kansas
April 17, 2018

INTERNATIONAL F.O.P. ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 795,279
Receivables	1,500
Investments	2,994,741
Prepaid expenses	33,392
Other assets, current	77,480
	<hr/>

TOTAL CURRENT ASSETS 3,902,392

Furnishings, fixtures and equipment, net of accumulated depreciation	5,795
Other assets, non-current	1,744
Intangible assets, net of accumulated amortization	37,533
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TOTAL ASSETS \$ 3,947,464

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 108,400
Deferred revenues	126,631
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TOTAL CURRENT LIABILITIES 235,031

NET ASSETS

Unrestricted	2,199,078
Temporarily restricted	1,513,355
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TOTAL NET ASSETS 3,712,433

TOTAL LIABILITIES AND NET ASSETS \$ 3,947,464

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

INTERNATIONAL F.O.P. ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

CHANGE IN UNRESTRICTED NET ASSETS

UNRESTRICTED REVENUES

Special events revenue	\$ 214,274
Less: Costs of direct benefits to donors	(264,456)
Investment income, net	118,077
Total Revenues	<u>67,895</u>

SUPPORT

Contributions	320,533
Noncash contributions	235,087
Other income	5,717
Net assets released from restriction	<u>1,651,535</u>
Total Support	<u>2,212,872</u>

TOTAL REVENUES AND SUPPORT	<u>2,280,767</u>
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UNRESTRICTED EXPENDITURES

Program services:	
Medical research	1,812,121
Management and general	224,078
Fundraising	<u>165,281</u>
TOTAL EXPENDITURES	<u>2,201,481</u>

CHANGE IN UNRESTRICTED NET ASSETS	<u>79,286</u>
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CHANGE IN TEMPORARILY RESTRICTED NET ASSETS

TEMPORARILY RESTRICTED SUPPORT

Contributions	1,396,849
Net assets released from restriction	<u>(1,651,535)</u>

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(254,686)</u>
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CHANGE IN NET ASSETS	<u><u>\$ (175,400)</u></u>
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The accompanying notes are an integral part of these financial statements.

**INTERNATIONAL F.O.P. ASSOCIATION, INC.
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance December 31, 2015	\$ 2,119,792	\$ 1,768,041	\$ 3,887,833
Change in net assets for 2016	<u>79,286</u>	<u>(254,686)</u>	<u>(175,400)</u>
Balance December 31, 2016	<u>\$ 2,199,078</u>	<u>\$ 1,513,355</u>	<u>\$ 3,712,433</u>

INTERNATIONAL F.O.P. ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	<u>\$ (175,400)</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization expense	2,852
Net realized and unrealized gain on investments	(56,277)
Changes in operating assets and liabilities:	
Receivables	51,892
Prepaid expenses	4,397
Other assets	54,693
Accounts payable and accrued expenses	(126,647)
Deferred revenue	<u>48,851</u>
Total Adjustments	<u>(20,239)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(195,639)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(94,274)
Proceeds from sales of investments	600,000
Purchase of fixed assets	(1,640)
Purchases of intangible assets	<u>(27,496)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>476,590</u>

CASH FLOWS FROM FINANCING ACTIVITIES

INCREASE IN CASH	280,951
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>514,328</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 795,279</u></u>

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

INTERNATIONAL F.O.P. ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Total</u>	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>
Salaries & wages	\$ 295,151	\$ 106,254	\$ 112,157	\$ 76,739.55
Payroll taxes	21,539	7,754	8,185	5,600
Total Personnel Costs	<u>316,690</u>	<u>114,008</u>	<u>120,342</u>	<u>82,340</u>
Conferences and seminars	239,711	239,711	-	-
Fundraising costs	16,905	-	-	16,905
Insurance	4,270	4,270	-	-
Medical research awards	876,069	876,069	-	-
Meetings	3,152	1,135	1,198	819
Office expense and supplies	19,130	4,432	14,698	-
Outsourcing	139,273	133,266	3,567	2,440
Postage and shipping	6,832	1,003	424	5,405
Printing and publications	5,912	5,912	-	-
Professional fees	283,308	158,759	73,951	50,598
Recruitment costs	2,086	2,086	-	-
Rent and utilities	21,716	7,817	8,252	5,647
Telephone	4,335	1,561	1,647	1,127
Travel	98,867	98,867	-	-
Website	160,373	160,373	-	-
Subtotal before depreciation	<u>2,198,629</u>	<u>1,809,269</u>	<u>224,078</u>	<u>165,281</u>
Depreciation and amortization	<u>2,852</u>	<u>2,852</u>	<u>-</u>	<u>-</u>
TOTAL EXPENSES	<u>\$ 2,201,481</u>	<u>\$ 1,812,121</u>	<u>\$ 224,078</u>	<u>\$ 165,281</u>

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

INTERNATIONAL F.O.P. ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENT

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Programs

International F.O.P. Association, Inc. ("the Association") is a not-for-profit Florida corporation incorporated in June 1988. The Association was established to support medical research, education, and communication for those afflicted by the rare genetic condition, Fibrodysplasia Ossificans Progressiva (F.O.P.). The Association's mission is to fund research to find a cure for F.O.P. while supporting individuals and their families through education, public awareness, and advocacy.

Basis of Accounting

The organization prepares its financial statements on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

- Unrestricted - net assets that are not subject to donor-imposed restrictions.
- Temporarily restricted - net assets subject to donor-imposed restrictions
- Permanently restricted - net assets required to be maintained in perpetuity with only the income to be used for the Association's activities due to donor-imposed restrictions.

As of December 31, 2016, the Association had no permanently restricted net assets.

Cash and cash equivalents

Cash consists of demand deposit accounts held at financial institutions. From time to time, the Company's account balances at the financial institutions exceed the Federal Deposit Insurance Corporation (FDIC) limit. The Company has suffered no losses as a result of this risk.

Investments

Investments are recorded at estimated fair value.

Furnishings, fixtures, equipment and depreciation

Furnishings, fixtures and equipment are recorded at cost less accumulated depreciation. Repairs and maintenance costs which do not extend asset lives are expensed in the period incurred.

Depreciation is determined using the straight-line method over the following estimated useful lives:

	<u>Lives</u>
Furnishings, fixtures and equipment	5-7 years

INTERNATIONAL F.O.P. ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENT

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Other assets

Other assets include the patient registry platform and various deposits. The patient registry platform is amortized on a straight-line basis over the contractual life, which is three years. The deposits are stated at cost.

Support and revenue

All items of support and revenue are stated on the accrual basis. Contributions subject to donor-imposed restrictions are recorded as temporarily restricted support and are reclassified as unrestricted when the donor-imposed restriction has been fulfilled or the stipulated time period has elapsed. Contributions with restrictions that are met during the fiscal year are recorded as unrestricted support. Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions that are not fulfilled in the accounting period. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. All expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the expiration of the donor-imposed stipulated purpose or the elapsing of the specified time period, are reported as net assets released from restrictions.

Non-cash contributions and contributed services

Material non-cash contributions are recorded at their estimated fair value as revenue and expense at the time the items are placed into service or utilized.

Contributed services are reported as contributions at their fair value if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In addition, the appropriate value of donated services of individuals is recorded as an expense when such services qualify for cost reimbursement from third-party providers.

Functional allocation of expenses

All expenses are stated on the accrual basis and are presented in a functionalized statement. Allocation of expenses to program services and supporting services are based on personnel time and actual expenses incurred for the related activities.

INTERNATIONAL F.O.P. ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENT

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Financial instruments and concentration of credit risk

The Association's financial instruments consist principally of cash and cash equivalents, receivables, investments, prepaid expenses, other assets, and accounts payable and accrued expenses. The fair value of a financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

- Level 1*: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date
- Level 2*: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.
- Level 3*: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The fair value of the Association's cash and cash equivalents and investments was determined based on Level 1 inputs. The Association does not have any financial instruments in the Level 2 or Level 3 categories. The Association believes that the recorded values of all the other financial instruments approximate their current fair values because of their nature and relatively short maturity dates or durations.

There have been no changes in Level 1, Level 2, and Level 3 and no changes in valuation techniques for these assets or liabilities for the year ended December 31, 2016.

Financial instruments which potentially expose the Association to a concentration of credit risk consist primarily of cash and cash equivalents. The Association deposits its cash with major banks. From time to time, cash balances exceed federally insured limits. The Association has historically not experienced losses on its bank cash deposits.

INTERNATIONAL F.O.P. ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENT

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Income Taxes

The Association is exempt from income taxation under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes is reflected in the accompanying financial statements.

The Association has adopted guidance related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. This guidance is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The Association assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the Association believes it is "more likely than not" that its tax positions will be sustained upon an examination by the Internal Revenue Service ("IRS") or the applicable state taxing authority. Accordingly, there is no provision for federal income taxes in the financial statements, as the Association believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than 50% chance of realization in the event of an IRS audit. State income taxes, which may be due in certain jurisdictions, have been assessed following the same "more likely than not" measurement threshold. With few exceptions, the Association is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2012.

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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent events

The Association has evaluated subsequent events through April 17, 2018, the date these financial statements were available to be issued.

INTERNATIONAL F.O.P. ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENT

NOTE B - INVESTMENTS

As of December 31, 2016, investments are stated at fair value, summarized as follows:

Cash	\$	177,568
Equity securities and exchange-traded funds		2,817,173
	\$	<u>2,994,741</u>

Earnings on investments and cash balances for the year ended December 31, 2016 are summarized as follows:

Interest and dividend income	\$	61,604
Realized loss		(3,975)
Unrealized gain		60,252
	\$	<u>117,881</u>

NOTE C - OTHER ASSETS

Other assets primarily consist of payments made toward the development of a patient registry platform by a third party vendor to compile patient data and facilitate research. Other assets of approximately \$164,000 are being amortized over the initial three year life of the contract ending in May 2018. The net balance as of December 31, 2016 is approximately \$77,000 with the current year expense included in the accompanying financial statements as patient registry expense.

NOTE D- FURNISHINGS, FIXTURES AND EQUIPMENT

As pf December 31, 2016, furnishings, fixtures and equipment are reported at cost less accumulated depreciation, as follows:

Furnishings, fixtures and equipment	\$	19,007
Less accumulated depreciation		(13,212)
	\$	<u>5,795</u>

Depreciation expense for the year ended December 31, 2016 amounted to \$2,540.

INTERNATIONAL F.O.P. ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENT

NOTE E - INTANGIBLE ASSETS

As of December 31, 2016, major classifications of non-goodwill intangible assets are summarized as follows:

Website	\$ 21,490
Less accumulated amortization	<u>(21,490)</u>
Total amortizable intangible assets	-
Construction in progress - new website	<u>37,533</u>
	<u><u>\$ 37,533</u></u>

Amortization expense related to intangible assets totaled \$312 and for the year ended December 31, 2016 respectively.

Future amortization expense for intangible assets as of December 31, 2016 is as follows:

2017	\$ 12,511
2018	12,511
2019	12,511
Thereafter	-

NOTE F - NET ASSET CLASSIFICATIONS

Temporarily restricted net assets are subject to donor stipulations as follows:

Medical research	\$ 1,299,516
Patient registry	25,583
L.I.F.E. Award	23,114
Competitive research grant	<u>165,142</u>
Total temporarily restricted net assets	<u><u>\$ 1,513,355</u></u>

INTERNATIONAL F.O.P. ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENT

NOTE G- NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors during the fiscal year:

Purpose restriction accomplished:

Medical research	\$ 1,441,343
Patient registry	206,572
L.I.F.E. Award	3,620
Total net assets released from restrictions	<u>\$ 1,651,535</u>

NOTE H- COMMITMENTS AND CONTINGENT LIABILITIES

Legal matters

In the normal course of conducting its business, the Association occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

Lease commitments

The Association leases building space under a noncancelable operating lease agreement. The lease requires monthly payments of \$1,744 and matures in June 2018. Total rent expense for the year ended December 31, 2016 was \$21,716.

Future minimum lease payments required by the lease as of December 31, 2016 are as follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2017	\$ 20,928
2018	10,464
Total	<u>\$ 31,392</u>

INTERNATIONAL F.O.P. ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENT

NOTE H- COMMITMENTS AND CONTINGENT LIABILITIES - continued

Grant commitments

As of December 31, 2016, the Association had approved the following grants to be paid once stated conditions are met by the grantee:

<u>Year ended December 31,</u>	<u>Amount</u>
2017	\$ 265,573
2018	388,205
2019	223,000
Total	<u>\$ 876,778</u>