

INTERNATIONAL F.O.P. ASSOCIATION, INC.
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017 AND 2016
AND FOR THE YEARS THEN ENDED
WITH INDEPENDENT AUDITORS' REPORT

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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, 2017 and 2016, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

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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, 2017 and 2016, and the statement of activities, changes in net assets, cash flows and functional expenses for the years 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
November 29, 2018

INTERNATIONAL F.O.P. ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 780,029	\$ 795,279
Receivables	397,542	1,500
Investments	2,800,866	2,994,741
Prepaid expenses	79,251	33,392
Other assets, current	<u>22,787</u>	<u>77,480</u>
TOTAL CURRENT ASSETS	4,080,475	3,902,392
Furnishings, fixtures and equipment, net of accumulated depreciation	4,340	5,795
Other assets, non-current	1,744	1,744
Intangible assets, net of accumulated amortization	<u>34,378</u>	<u>37,533</u>
TOTAL ASSETS	<u>\$ 4,120,937</u>	<u>\$ 3,947,464</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 368,557	\$ 108,400
Deferred revenues	<u>101,514</u>	<u>126,631</u>
TOTAL CURRENT LIABILITIES	<u>470,071</u>	<u>235,031</u>
NET ASSETS		
Unrestricted	2,095,475	2,199,078
Temporarily restricted	<u>1,555,391</u>	<u>1,513,355</u>
TOTAL NET ASSETS	<u>3,650,866</u>	<u>3,712,433</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,120,937</u>	<u>\$ 3,947,464</u>

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

INTERNATIONAL F.O.P. ASSOCIATION, INC.
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>CHANGE IN UNRESTRICTED NET ASSETS</u>		
<u>SUPPORT</u>		
Contributions	283,873	320,533
Noncash contributions	118,357	235,087
Other income	9,745	5,717
Net assets released from restriction	1,495,248	1,651,535
Total Support	<u>1,907,223</u>	<u>2,212,872</u>
<u>UNRESTRICTED REVENUES</u>		
Special events revenue	\$ 273,793	\$ 214,274
Less: Costs of direct benefits to donors	(106,801)	(264,456)
Investment income, net	96,984	118,077
Total Revenues	<u>263,976</u>	<u>67,895</u>
TOTAL SUPPORT AND REVENUES	<u>2,171,199</u>	<u>2,280,767</u>
<u>UNRESTRICTED EXPENDITURES</u>		
Program services:		
Medical research	1,779,304	1,812,121
Management and general	275,799	224,079
Fundraising	219,699	165,281
TOTAL EXPENDITURES	<u>2,274,802</u>	<u>2,201,481</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>(103,603)</u>	<u>79,286</u>
<u>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</u>		
<u>TEMPORARILY RESTRICTED SUPPORT</u>		
Contributions	1,537,284	1,396,849
Net assets released from restriction	<u>(1,495,248)</u>	<u>(1,651,535)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>42,036</u>	<u>(254,686)</u>
CHANGE IN NET ASSETS	<u>\$ (61,567)</u>	<u>\$ (175,400)</u>

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

INTERNATIONAL F.O.P. ASSOCIATION, INC.
 STATEMENTS OF CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance January 1, 2016	\$ 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	2,199,078	1,513,355	3,712,433
Change in net assets for 2017	<u>(103,603)</u>	<u>42,036</u>	<u>(61,567)</u>
Balance December 31, 2017	<u>\$ 2,095,475</u>	<u>\$ 1,555,391</u>	<u>\$ 3,650,866</u>

INTERNATIONAL F.O.P. ASSOCIATION, INC.
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (61,567)	\$ (175,400)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization expense	8,482	2,852
Loss on sale of fixed assets	940	-
Net realized and unrealized gain on investments	(38,822)	(56,277)
Changes in operating assets and liabilities:		
Receivables	(396,042)	51,892
Prepaid expenses	(45,859)	4,397
Other assets	54,693	54,693
Accounts payable and accrued expenses	260,157	(126,647)
Deferred revenue	(25,117)	48,851
Total Adjustments	(181,568)	(20,239)
NET CASH USED IN OPERATING ACTIVITIES	(243,135)	(195,639)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of investments	(57,303)	(94,274)
Proceeds from sales of investments	290,000	600,000
Purchase of fixed assets	(1,712)	(1,640)
Purchases of intangible assets	(3,100)	(27,496)
NET CASH PROVIDED BY INVESTING ACTIVITIES	227,885	476,590
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	-	-
INCREASE (DECREASE) IN CASH	(15,250)	280,951
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	795,279	514,328
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 780,029</u>	<u>\$ 795,279</u>

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

INTERNATIONAL F.O.P. ASSOCIATION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Total	Program Services	Management & General	Fundraising	Total	Program Services	Management & General	Fundraising
Salaries & wages	\$ 377,718	\$ 135,978	\$ 143,533	\$ 98,207	\$ 295,151	\$ 106,254	\$ 112,157	\$ 76,740
Payroll taxes	25,799	9,287	9,804	6,708	21,539	7,754	8,185	5,600
Total Personnel Costs	403,517	145,265	153,337	104,915	316,690	114,008	120,342	82,340
Conferences and seminars	107,160	107,160	-	-	239,711	239,711	-	-
Fundraising costs	28,995	-	-	28,995	16,905	-	-	16,905
Insurance	2,842	2,842	-	-	4,270	4,270	-	-
Medical research awards	883,742	883,742	-	-	876,069	876,069	-	-
Meetings	2,797	1,007	1,063	727	3,152	1,135	1,198	819
Office expense and supplies	41,995	27,354	14,641	-	19,130	4,432	14,698	-
Outsourcing	72,089	68,980	1,846	1,263	139,273	133,266	3,567	2,440
Postage and shipping	12,735	-	426	12,309	6,832	1,003	424	5,405
Printing and publications	21,872	21,872	-	-	5,912	5,912	-	-
Professional fees	420,582	262,231	94,021	64,330	283,308	158,759	73,951	50,598
Recruitment costs	1,194	1,194	-	-	2,086	2,086	-	-
Rent and utilities	22,834	8,220	8,677	5,937	21,716	7,817	8,252	5,647
Telephone	4,706	1,695	1,788	1,223	4,335	1,561	1,647	1,127
Travel	66,082	66,082	-	-	98,867	98,867	-	-
Website	173,178	173,178	-	-	160,373	160,373	-	-
Subtotal before depreciation	2,266,320	1,770,822	275,799	219,699	2,198,629	1,809,269	224,079	165,281
Depreciation and amortization	8,482	8,482	-	-	2,852	2,852	-	-
TOTAL EXPENSES	<u>\$ 2,274,802</u>	<u>\$ 1,779,304</u>	<u>\$ 275,799</u>	<u>\$ 219,699</u>	<u>\$ 2,201,481</u>	<u>\$ 1,812,121</u>	<u>\$ 224,079</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 STATEMENTS

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 Association prepares its financial statements as a voluntary health and welfare organization 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, 2017 and 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 Association's account balances at the financial institutions exceed the Federal Deposit Insurance Corporation (FDIC) limit. The Association 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>Years</u>
Furnishings, fixtures and equipment	5-7

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

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 support 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 STATEMENTS

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 years ended December 31, 2017 and 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 STATEMENTS

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 2013.

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 Organization has evaluated subsequent events through November 29, 2018, the date these financial statements were available to be issued.

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

NOTE B - INVESTMENTS

Investments consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash	\$ 25,006	\$ 177,568
Equity securities and exchange-traded funds	2,775,860	2,817,173
	<u>\$ 2,800,866</u>	<u>\$ 2,994,741</u>

Earnings on investments and cash balances for the years ended December 31, 2017 and 2016 are summarized as follows:

Interest and dividend income	\$ 58,162	\$ 61,604
Realized gain (loss)	816	(3,975)
Unrealized gain	38,006	60,252
	<u>\$ 96,984</u>	<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, 2017 is approximately \$54,700 with the current year expense included in the accompanying financial statements as professional expense.

NOTE D- FURNISHINGS, FIXTURES AND EQUIPMENT

Furnishings, fixtures and equipment consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Furnishings, fixtures and equipment	\$ 12,956	\$ 19,007
Less accumulated depreciation	(8,616)	(13,212)
	<u>\$ 4,340</u>	<u>\$ 5,795</u>

Depreciation expense for the years ended December 31, 2017 and 2016 amounted to \$2,226 and \$2,540, respectively.

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

NOTE E - INTANGIBLE ASSETS

Major classifications of intangible assets as of December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Website	\$ 59,024	\$ 21,490
Less accumulated amortization	(27,746)	(21,490)
Total amortizable intangible assets	31,278	-
Construction in progress - new website	3,100	37,533
	<u>\$ 34,378</u>	<u>\$ 37,533</u>

Amortization expense related to intangible assets totaled \$6,256 and \$312 for the years ended December 31, 2017 and 2016, respectively.

Future amortization expense for intangible assets as of December 31, 2017 is as follows:

2018	15,629
2019	15,629
2020	3,120
Thereafter	-

NOTE F - NET ASSET CLASSIFICATIONS

Temporarily restricted net assets are available for the following purposes or periods:

Periods after December 31:	2017	2016
Medical research	\$ 1,201,985	\$ 1,325,099
L.I.F.E. Award	18,577	23,114
Competitive research grant	334,829	165,142
Total temporarily restricted net assets	<u>\$ 1,555,391</u>	<u>\$ 1,513,355</u>

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

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:

	<u>2017</u>	<u>2016</u>
Purpose restriction accomplished:		
Medical research	\$ 1,358,655	\$ 1,441,343
Competitive research grant	76,582	-
Family services	52,782	-
L.I.F.E. Award	7,229	3,620
Patient registry	-	206,572
Total net assets released from restrictions	<u>\$ 1,495,248</u>	<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 matured in June 2018. Total rent expense for the year ended December 31, 2017 and 2016 was \$22,834 and \$21,716, respectively.

Future minimum lease payments required by the lease as of December 31, 2017 are as follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2018	\$ 10,464
Thereafter	-
Total	<u>\$ 10,464</u>

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

NOTE H- COMMITMENTS AND CONTINGENT LIABILITIES - continued

Grant commitments

As of December 31, 2017, 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>
2018	\$ 276,779
2019	23,000
Thereafter	-
Total	<u>\$ 299,779</u>