
***INTERNATIONAL F.O.P.
ASSOCIATION INC.***
*FINANCIAL STATEMENTS
DECEMBER 31, 2018*

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Independent Auditors' Report

Board of Directors
International F.O.P. Association Inc.
Kansas City, Missouri

Report On The Financial Statements

We have audited the accompanying financial statements of International F.O.P. Association Inc., (the Association) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, changes in net assets, functional expenses, and cash flows 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 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 International F.O.P. Association Inc. as of December 31, 2018, and the changes in its net assets, statement of functional expenses, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matter

As discussed in Note 12, International F.O.P. Association Inc. restated its financial statements for the year ended December 31, 2017 to correct an error in accounting for certain restricted contributions. Our opinion is not modified with respect to this matter.

RubinBrown LLP

September 5, 2019

INTERNATIONAL F.O.P. ASSOCIATION INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

Assets

Current Assets

Cash and cash equivalents	\$ 839,218
Cash equivalents held in investment portfolio	52,627
Accounts and other receivables	167,672
Investments	2,746,311
Promises to give	962,593
Prepaid expenses	5,107
Total Current Assets	<u>4,773,528</u>

Property And Equipment, Net	<u>3,699</u>
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Promises To Give, Net	<u>567,647</u>
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Intangible Assets, Net	<u>211,467</u>
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Total Assets	<u>\$ 5,556,341</u>
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Liabilities And Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 411,374
Grants payable	340,574
Total Current Liabilities	<u>751,948</u>

Net Assets

Without donor restrictions	1,697,273
With donor restrictions	3,107,120
Total Net Assets	<u>4,804,393</u>

Total Liabilities And Net Assets	<u>\$ 5,556,341</u>
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INTERNATIONAL F.O.P. ASSOCIATION INC.

**STATEMENT OF ACTIVITIES AND
CHANGES IN NET ASSETS
For The Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains (Losses) And Other Support			
Support:			
Contributions	\$ 334,391	\$ 3,264,506	\$ 3,598,897
Noncash contributions	86,027	—	86,027
Other	10,811	—	10,811
Special Events			
Special events revenue	185,115	—	185,115
Less: costs of direct benefits to donors	(89,269)	—	(89,269)
Investment income (loss), net	(1,305)	—	(1,305)
Net assets released from restrictions	1,814,291	(1,814,291)	—
Total Revenues, Gains And Other Support	2,340,061	1,450,215	3,790,276
Expenses			
Program services	2,375,322	—	2,375,322
Management and general	256,237	—	256,237
Fundraising	106,704	—	106,704
Total Expenses	2,738,263	—	2,738,263
Change In Net Assets	(398,202)	1,450,215	1,052,013
Net Assets - Beginning Of Year, As Restated	2,095,475	1,656,905	3,752,380
Net Assets - End Of Year	\$ 1,697,273	\$ 3,107,120	\$ 4,804,393

INTERNATIONAL F.O.P. ASSOCIATION INC.

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2018

	Program Services	Management And General	Fundraising	Total
Personnel expenses	\$ 427,822	\$ 115,085	\$ 47,804	\$ 590,711
Office and general	47,065	49,360	8,793	105,218
Professional fees	253,720	61,872	31,458	347,050
Website and software subscriptions	185,391	3,143	7,293	195,827
Travel, conferences, and meetings	416,503	16,661	1,879	435,043
Grants to organizations and individual awards	1,040,626	—	—	1,040,626
Event costs	—	—	89,269	89,269
Other	3,879	325	9,367	13,571
	<u>2,375,006</u>	<u>246,446</u>	<u>195,863</u>	<u>2,817,315</u>
Depreciation and amortization	316	9,791	110	10,217
Total expenses by function	2,375,322	256,237	195,973	2,827,532
Less: Cost of direct benefit to donors	—	—	(89,269)	(89,269)
Total expenses included in expenses section of Statement Of Activities	<u>\$ 2,375,322</u>	<u>\$ 256,237</u>	<u>\$ 106,704</u>	<u>\$ 2,738,263</u>

INTERNATIONAL F.O.P. ASSOCIATION INC.

STATEMENT OF CASH FLOWS For The Year Ended December 31, 2018

Cash Flows From Operating Activities

Change in net assets	\$ 1,052,013
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	10,217
Net realized and unrealized gain on investments	77,990
Changes in assets and liabilities:	
Accounts receivable	229,870
Promises to give	(1,530,240)
Prepaid expenses	74,143
Other assets	24,532
Accounts payable and accrued expenses	42,697
Grants payable	209,574
Net Cash Provided By Operating Activities	190,796

Cash Flows From Investing Activities

Purchase of property and equipment	(1,644)
Purchases of intangible assets	(53,901)
Purchases of investments	(48,731)
Proceeds from sale of investments	290
Net Cash Used In Investing Activities	(103,986)

Net Increase In Cash And Cash Equivalents 86,810

Cash And Cash Equivalents - Beginning Of Year 805,035

Cash And Cash Equivalents - End Of Year \$ 891,845

Cash And Cash Equivalents Are Included Within The Following Captions On The Statement Of Financial Position

Cash and cash equivalents	839,218
Cash equivalents held in investment portfolio	52,627
Total Cash And Cash Equivalents Included Within The Statement Of Financial Position	\$ 891,845

INTERNATIONAL F.O.P. ASSOCIATION INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

1. Nature Of Association

International F.O.P. Association Inc. (the Association) is a not-for-profit Florida corporation incorporated in June 1988. The Association was established to fund 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.

2. Significant Accounting Policies

Basis Of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

New Accounting Principle

On August 18, 2016, Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities – *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU addresses the complexity and understandability of net asset classification, requires new footnote disclosure about liquidity and availability of resources and requires presentation of functional expenses. This ASU has been implemented and adjusted in these financial statements accordingly, and applied retrospectively to all periods presented.

Basis Of Presentation

Financial statement presentation follows the requirements of U.S. generally accepted accounting principles. Under these principles, the Association is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions: Net assets that are not subject to donor-imposed stipulations as well as net assets designated by the Board for specific purposes.

Net Assets with Donor Restrictions: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Association and/or the passage of time, or net assets subject to donor-imposed stipulations that neither expire by the passage of time nor by actions of the Association.

Estimates And Assumptions

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. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Cash And Cash Equivalents

The Association considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018, cash equivalents consisted of money market accounts. The Association maintains cash balances at banks in excess of federally insured limits at various times during the year and has not experienced any losses in such accounts.

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. Investment income (loss) includes dividends, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments. Investment income is reported as increase in net assets without donor restrictions unless the use is restricted by explicit donor stipulations or by law.

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

INTERNATIONAL F.O.P. ASSOCIATION INC.

Notes To Financial Statements (*Continued*)

Accounts Receivable

Accounts receivable are carried at original invoice amounts less an estimate made for doubtful receivables, if any, based on a review of all outstanding amounts on a regular basis. The Association's management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. Management believes that substantially all accounts receivable are collectible and, therefore, has not established an allowance for doubtful accounts as of December 31, 2018.

Promises To Give

Unconditional promises to give are recognized as support in the period the promises are received. Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows, less an allowance for uncollectible promises. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promises are received. Amortization of the discount is included in contribution revenue.

Property And Equipment

Property and equipment are recorded at cost, if acquired by purchase, or at the estimated fair value at the date of receipt, if acquired by donation. Depreciation of property and equipment are provided over the following estimated useful lives on a straight-line basis:

Furnishings, fixtures and equipment	5 to 7 years
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Intangible Assets

Intangible assets of the Association are recorded at cost and amortized over the following estimated useful life on a straight-line basis:

Website	5 years
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INTERNATIONAL F.O.P. ASSOCIATION INC.

Notes To Financial Statements (*Continued*)

Contributions And Support

The Association reports gifts of cash and other assets as public support without donor restriction or with donor restriction, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Conditional contributions, which depend upon specified future and uncertain events, are not included as support until such time as the conditions are substantially met.

In-Kind Contributions And Donated Services

Donated materials are reflected as in-kind contribution revenue in the accompanying statement of activities and changes in net assets at their estimated fair value with an offsetting charge to expense. Only donated services that create or enhance a nonfinancial asset, or require specialized skills and would typically need to be purchased if not provided by donation, are reflected in the financial statements.

Grants

The Association awards research grants annually to universities, both nationally and throughout the world. Grants are expensed during the year in which they are approved by the Board of Directors and when all required conditions have been met.

Revenue Recognition

The Association recognizes contributions and special event revenue in the year in which it is promised by donors or the year in which a special event occurs.

Income Taxes

The Association is exempt from income taxes on related, exempt income under Section 501(c)(3) of the Internal Revenue Code (IRC) as a not-for-profit organization.

INTERNATIONAL F.O.P. ASSOCIATION INC.

Notes To Financial Statements (Continued)

Functional Expenses

Expenses are charged to programs and support services on the basis of management's estimates. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Salaries and wages are charged to program expense and support expense on the basis of periodic time studies.

Subsequent Events

Management evaluates subsequent events through the date the financial statements were available for issue, which is the date of the Independent Auditors' Report.

3. Promises To Give

Unconditional promises to give at December 31, 2018 are as follows:

In one year or less	\$ 962,593
Between one and two years	<u>579,000</u>
	1,541,593
Less: Discount to present value	<u>(11,353)</u>
	<u><u>\$ 1,530,240</u></u>

The promises to give are reported net of a discount rate of 2.0% to the present value of future cash flows. Promises to give at December 31, 2018 are restricted for the patient registry. No allowance for uncollectible accounts was deemed necessary as of December 31, 2018.

4. Property And Equipment

Property and equipment consist of the following at December 31, 2018:

Furnishings, fixtures and equipment	\$ 14,600
Accumulated depreciation	<u>(10,901)</u>
	<u><u>\$ 3,699</u></u>

Depreciation expense for the year ended December 31, 2018 was \$2,285.

INTERNATIONAL F.O.P. ASSOCIATION INC.

Notes To Financial Statements (Continued)

5. Intangibles

Intangibles consist of the following at December 31, 2018:

Website	\$	64,233
Accumulated amortization		<u>(35,678)</u>
Total amortizable intangible assets		28,555
Construction in progress - patient registry		175,662
Construction in progress - donor database		<u>7,250</u>
	\$	<u>211,467</u>

Amortization expense for the year ended December 31, 2018 was \$7,932. At December 31, 2018, there was \$131,120 of construction in progress – patient registry included in accounts payable.

6. Investments

Investment securities and unrealized appreciation (depreciation) are as follows at December 31, 2018:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Marketable Securities - Equities	\$ 196	\$ 167	\$ (29)
Exchange Traded Funds - Corporate Bonds	2,205,927	2,148,972	(56,955)
Exchange Traded Funds - U.S. Treasuries	329,549	324,415	(5,134)
Exchange Traded Funds - International Equity	134,593	141,152	6,559
Exchange Traded Funds - Other	150,587	131,605	(18,982)
	<u>\$ 2,820,852</u>	<u>\$ 2,746,311</u>	<u>\$ (74,541)</u>

Investment return is summarized as follows for the year ended December 31, 2018:

Interest and dividend income	\$	76,685
Realized gain (loss)		(1,085)
Unrealized gain (loss)		<u>(76,905)</u>
	\$	<u>(1,305)</u>

7. Fair Value Measurements

The Association follows an established framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs 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 these rules are described below:

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

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;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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.

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

The asset's 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.

INTERNATIONAL F.O.P. ASSOCIATION INC.

Notes To Financial Statements (*Continued*)

Following is a description of the valuation methodology and inputs used for assets measured at fair value:

Marketable Securities And Exchange Traded Funds

Marketable securities and exchange traded funds are reported at fair value as determined based on quoted market prices in actively traded markets for identical assets. Marketable securities and exchange traded funds are classified as level 1 securities.

During 2018, there were no changes in the methods and/or assumptions utilized to derive the fair value of the Association's assets.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2018:

Medical research	\$	1,347,304
L.I.F.E. Award		25,348
Competitive research grant		320,334
Awareness: Tin Soldiers		113,537
Clinical Trials Education		12,500
Patient Registry		1,188,160
Prevalence Project		<u>99,937</u>
	\$	<u><u>3,107,120</u></u>

INTERNATIONAL F.O.P. ASSOCIATION INC.

Notes To Financial Statements (Continued)

9. Net Assets Released From Restrictions

Net assets were released from donor-imposed restrictions during the year ended December 31, 2018 by incurring expenses satisfying the following restricted purposes or by occurrence of other events specified by donors:

Medical research	\$ 1,014,549
L.I.F.E. Award	6,946
Competitive research grant	211,073
Family Services	51,514
Awareness: Tin Soldiers	1,833
Patient Registry	493,705
Prevalence Project	34,671
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	\$ 1,814,291
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10. Liquidity And Availability Of Resources

The Association strives to maintain bank accounts balances sufficient to cover 3 months of general expenditures. An additional 6 months of general expenditures are maintained in the form of cash and/or short-term investment grade bonds having a maximum maturity of 5 years. All additional financial assets are invested in a combination of equities and bond index exchange traded funds.

The following table reflects the Association's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

Total financial assets	\$ 3,805,828
Less: Financial assets subject to donor-imposed purpose restrictions:	
Net assets subject to purpose restrictions	(3,107,120)
Promises to give excluded from financial assets	1,530,240
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	(1,576,880)
Financial assets available to meet cash needs for general expenditures within one year	<hr/> <hr/>
	\$ 2,228,948

INTERNATIONAL F.O.P. ASSOCIATION INC.

Notes To Financial Statements (Continued)

11. Commitments

As of December 31, 2018, the Association had approved the following grants to be paid once stated conditions are met by the grantee:

<u>Year</u>	<u>Amount</u>
2019	\$ 273,015

12. Restatement

The Association has restated the ending net assets for the year ended December 31, 2017 to correct an error in accounting for certain contributions with donor restrictions. The impact of the correction of the error, which has been adjusted in the financial statements, is as follows:

<u>Financial Statement Line Item</u>	<u>As Originally Stated</u>	<u>Restatement</u>	<u>As Restated</u>
Net assets with donor restrictions - beginning of year (January 1, 2018)	\$ 1,555,391	\$ 101,514	\$ 1,656,905
Total net assets - beginning of year (January 1, 2018)	3,650,866	101,514	3,752,380
Total change in net assets - for the year ending December 31, 2017	(61,567)	101,514	39,947