

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016



Certified Public Accountants and Business Consultants

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

TABLE OF CONTENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	Page
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statement of Functional Expenses (2017)	4
Statement of Functional Expenses (2016)	5
Statements of Cash Flows	6
Notes to Financial Statements	7

Independent Auditors' Report

To the Board of Directors
Friedreich's Ataxia Research Alliance
Downingtown, Pennsylvania

We have audited the accompanying financial statements of Friedreich's Ataxia Research Alliance (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows 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 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 Friedreich's Ataxia Research Alliance as of December 31, 2017 and 2016, 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.



West Chester, Pennsylvania
May 29, 2018

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,459,689	\$ 844,839
Contributions receivable	358,567	269,394
Prepaid expenses	8,402	34,261
Investment in securities	1,933,814	1,868,199
TOTAL CURRENT ASSETS	<u>3,760,472</u>	<u>3,016,693</u>
COMPUTER EQUIPMENT, net of accumulated depreciation of \$6,129 (2017) and \$5,295 (2016)	1,006	1,840
OTHER ASSETS		
Investment in preferred stock	<u>1,091,500</u>	<u>1,091,500</u>
TOTAL ASSETS	<u>\$ 4,852,978</u>	<u>\$ 4,110,033</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ <u>323,194</u>	\$ <u>484,966</u>
NET ASSETS		
Unrestricted	4,208,302	3,597,092
Temporarily restricted	<u>321,482</u>	<u>27,975</u>
TOTAL NET ASSETS	<u>4,529,784</u>	<u>3,625,067</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,852,978</u>	<u>\$ 4,110,033</u>

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
Revenue and support		
Contributions	\$ 1,448,463	\$ 898,712
Grants	15,000	-
Special events	4,540,268	3,910,167
Investment income	222,780	65,588
Net assets released from restrictions	<u>2,005,679</u>	<u>1,428,764</u>
TOTAL REVENUE AND SUPPORT	<u>8,232,190</u>	<u>6,303,231</u>
Expenses		
Program services		
Education, awareness and outreach	244,313	197,035
Patient registry and CCRN	715,107	431,781
Research and grant program	5,363,415	4,629,368
Research conferences	280,759	100,504
TOTAL PROGRAM SERVICES	<u>6,603,594</u>	<u>5,358,688</u>
Fund-raising services		
Special events	822,484	768,912
Other fund-raising	101,685	99,383
TOTAL FUND-RAISING SERVICES	<u>924,169</u>	<u>868,295</u>
Supporting services		
General and administrative	93,217	83,536
TOTAL EXPENSES	<u>7,620,980</u>	<u>6,310,519</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>611,210</u>	<u>(7,288)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	2,299,186	1,293,950
Net assets released from restrictions	<u>(2,005,679)</u>	<u>(1,428,764)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>293,507</u>	<u>(134,814)</u>
CHANGE IN NET ASSETS	904,717	(142,102)
NET ASSETS AT BEGINNING OF YEAR	<u>3,625,067</u>	<u>3,767,169</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,529,784</u>	<u>\$ 3,625,067</u>

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services				Totals	Fund-Raising Services	Supporting Services	Totals
	Education, Awareness and Outreach	Patient Registry and CCRN	Research and Grant Program	Research Conferences			General and Administrative	
FUNCTIONAL EXPENSES								
Advertising	\$ 1,000	\$ 15,000	\$ -	\$ -	\$ 16,000	\$ 286	\$ -	\$ 16,286
Auction items	-	-	-	-	-	45,941	-	45,941
Awards and grants	-	626,257	5,171,280	26,512	5,824,049	-	-	5,824,049
Registration fees	900	-	-	-	900	9,224	544	10,668
Contracted services	15,000	-	-	49,753	64,753	70,926	15,025	150,704
Credit card and bank fees	-	85	372	104	561	86,534	272	87,367
Facilities and equipment	4,180	-	-	-	4,180	187,770	2,340	194,290
Rent	4,541	2,271	9,081	2,270	18,163	22,704	4,541	45,408
Books and subscriptions	2,740	-	-	1,000	3,740	6,823	1,891	12,454
Hospitality	27	-	-	167	194	10,651	208	11,053
Postage	2,647	-	4	255	2,906	6,474	1,515	10,895
Printing and copying	4,071	-	-	1,079	5,150	8,347	1,056	14,553
Supplies	1,164	-	-	683	1,847	83,996	3,671	89,514
Utilities	1,329	-	1,993	332	3,654	1,329	1,661	6,644
Event entertainment	-	-	-	-	-	10,077	-	10,077
Insurance	-	-	-	1,250	1,250	7,083	3,197	11,530
Miscellaneous	1,484	-	-	-	1,484	100	140	1,724
Membership dues	1,500	-	-	220	1,720	-	-	1,720
Payroll, taxes and benefits	168,463	68,690	170,628	94,691	502,472	277,516	38,789	818,777
Conferences, meetings and travel	35,267	2,804	10,057	102,443	150,571	88,388	17,533	256,492
Depreciation	-	-	-	-	-	-	834	834
TOTAL FUNCTIONAL EXPENSES	\$ 244,313	\$ 715,107	\$ 5,363,415	\$ 280,759	\$ 6,603,594	\$ 924,169	\$ 93,217	\$ 7,620,980

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services				Totals	Fund-Raising Services	Supporting Services	Totals
	Education, Awareness and Outreach	Patient Registry and CCRN	Research and Grant Program	Research Conferences			General and Administrative	
FUNCTIONAL EXPENSES								
Advertising	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210	\$ -	\$ 210
Auction items	-	-	-	-	-	6,287	-	6,287
Awards and grants	-	382,000	4,455,203	15,700	4,852,903	-	-	4,852,903
Registration fees	200	-	-	200	400	6,113	50	6,563
Contracted services	-	-	-	-	-	66,695	14,829	81,524
Credit card and bank fees	-	20	230	60	310	73,367	100	73,777
Facilities and equipment	4,876	-	-	-	4,876	162,417	-	167,293
Rent	4,122	2,060	8,244	2,061	16,487	20,610	4,122	41,219
Books and subscriptions	5,157	335	335	-	5,827	5,963	481	12,271
Hospitality	450	208	133	-	791	12,510	67	13,368
Postage	419	-	-	-	419	4,830	1,811	7,060
Printing and copying	5,394	-	-	-	5,394	7,517	2,014	14,925
Supplies	289	-	-	66	355	89,210	3,375	92,940
Utilities	1,491	-	2,236	372	4,099	1,491	1,863	7,453
Event entertainment	-	-	-	-	-	30,890	-	30,890
Insurance	-	-	-	-	-	7,245	2,816	10,061
Miscellaneous	-	-	-	-	-	120	41	161
Membership dues	2,100	-	-	-	2,100	-	-	2,100
Payroll, taxes and benefits	134,600	39,647	139,979	53,949	368,175	272,553	31,459	672,187
Conferences, meetings and travel	37,937	7,511	23,008	28,096	96,552	100,267	19,210	216,029
Depreciation	-	-	-	-	-	-	1,298	1,298
TOTAL FUNCTIONAL EXPENSES	\$ 197,035	\$ 431,781	\$ 4,629,368	\$ 100,504	\$ 5,358,688	\$ 868,295	\$ 83,536	\$ 6,310,519

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 904,717	\$ (142,102)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Gain on sale of securities	(15,821)	(18,363)
Net unrealized gain on securities	(182,994)	(29,569)
Depreciation	834	1,298
(Increase) decrease in		
Contributions receivable	(89,173)	(130,997)
Prepaid expenses	25,859	(24,850)
Increase (decrease) in accounts payable	(161,772)	195,005
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>481,650</u>	<u>(149,578)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of securities	306,229	889,227
Purchase of securities	(173,029)	(909,362)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>133,200</u>	<u>(20,135)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	614,850	(169,713)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>844,839</u>	<u>1,014,552</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,459,689</u>	<u>\$ 844,839</u>

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION

Friedreich's Ataxia Research Alliance (FARA) was incorporated under the laws of the District of Columbia as a nonprofit corporation. The stated purposes of FARA are to marshal and focus the resources and relationships needed to treat and cure Friedreich's Ataxia by raising funds for research, promoting public awareness and aligning scientists, patients, clinicians, government agencies, pharmaceutical companies and other organizations dedicated to treating and curing Friedreich's Ataxia.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

FARA is required 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

Cash and cash equivalents include checking and money market accounts. FARA normally deposits its cash with two financial institutions.

Receivables

Receivables consist primarily of funds due for fund-raising events on FARA's behalf that were not remitted to FARA until the following year. No receivables are expected to remain outstanding for more than one year. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to the account receivable. FARA recorded no allowance for doubtful accounts as of December 31, 2017 and 2016.

Investments

FARA carries investments in marketable securities with readily determinable fair market values and all investments in debt securities at their fair values in the statements of financial position. FARA carries investments in preferred stock at cost which approximates fair value in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Computer Equipment

Computer equipment is stated at cost. Depreciation of computer equipment is provided utilizing the straight-line method over five years. Depreciation expense was \$834 and \$1,298 for the years ended December 31, 2017 and 2016, respectively.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions are reported as temporarily restricted support and are reclassified upon expiration of the restriction. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Patient Registry and CCRN

The Friedreich's Ataxia Global Patient Registry is the only worldwide registry of Friedreich's Ataxia patients. This registry currently holds the demographic and clinical information on more than 2,800 Friedreich's ataxia patients from across the United States and internationally. This registry was created to serve the patient, physician, and research communities.

The Collaborative Clinical Research Network in Friedreich's Ataxia (CCRN in FA) is an international network of clinical research centers that work together to advance treatments and clinical care for individuals with Friedreich's Ataxia. Each network site is provided funding to participate in a longitudinal natural history study and to:

- Identify and validate clinical outcome measures and biomarkers in FA that are necessary for clinical trials
- Facilitate the implementation and delivery of clinical trials
- Share data and resources to advance treatments for FA
- Define best clinical practices for FA and provide the highest level of clinical care for patients

Concentrations of Credit Risk

Cash deposits that potentially subject FARA to concentrations of credit risk consist of cash accounts not covered by FDIC insurance. At December 31, 2017, \$1,458,888 of FARA's bank balances of \$2,209,880 was exposed to credit risk. At December 31, 2016, \$697,399 of FARA's bank balances of \$1,337,132 was exposed to credit risk.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

FARA recognizes contributed professional services if the service received (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time to FARA and its programs. For the years ended December 31, 2017 and 2016, there were no donated services that met the criteria for recognition as contributed services.

Income Tax Status

FARA has been granted tax-exempt status as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, files federal tax Form 990 (Return of Organization Exempt From Income Tax) annually.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through May 29, 2018, the date which the financial statements were available to be issued.

NOTE C - INVESTMENT IN PREFERRED STOCK

FARA purchased 550,000 shares of Series A preferred stock of Edison Pharmaceuticals, Inc. for \$1,100,000 directly from the issuer in a private placement. Par value per share is valued at \$.0001. The investment is accounted for using the cost method. The value of the investment as of December 31, 2017 and 2016 was \$1,091,500. In 2017, there was a press release indicating Edison underwent a name change to BioElectron Technology Corporation.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE D - FAIR VALUE MEASUREMENTS

Financial accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that FARA has the ability to access. *Level 2* inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. *Level 3* inputs are unobservable inputs based on FARA's assumptions used to measure assets and liabilities at fair value. 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.

The assets of FARA for which fair values are determined on a recurring basis are as follows:

	<u>2017</u>	<u>2016</u>
COMMON STOCK	\$ <u>-</u>	\$ <u>1,076</u>
MUTUAL FUNDS		
Bonds	230,050	376,754
Common stock	1,022,138	926,234
Fixed income	645,123	529,824
Other	<u>36,503</u>	<u>34,311</u>
	<u>1,933,814</u>	<u>1,867,123</u>
	\$ <u><u>1,933,814</u></u>	\$ <u><u>1,868,199</u></u>

There were no Level 2 or Level 3 assets at December 31, 2017 or 2016.

Mutual funds are valued at the net asset value of shares held by FARA at year-end.

Common stock is valued at the market value of shares held by FARA at year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although FARA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Donations of marketable securities are recorded as contributions (\$360,452 in 2017 and \$268,107 in 2016) on the date of donation at their fair values, which are based on quoted market prices (Level 1 inputs).

At December 31, 2017 and 2016, one mutual fund represented 12% and 20% of FARA's portfolio, respectively.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
2018 Center of Excellence Contributions	\$ 286,494	\$ -
2018 Energy Ball Sponsorship	25,000	-
Restricted to research grants	9,988	7,000
Patient/researcher travel	<u>-</u>	<u>20,975</u>
	<u>\$ 321,482</u>	<u>\$ 27,975</u>

NOTE F - SPECIAL EVENTS

FARA holds many special events during the year in an effort to raise contributions. During the years ended December 31, 2017 and 2016, FARA hosted the Energy Ball in Tampa, Florida, which raised approximately 23% of FARA's total revenues for 2017 and 26% in 2016.

NOTE G - LEASE AGREEMENT

FARA leases office space in a corporate center under a three-year lease that automatically renews from year-to-year unless terminated by either party. The lease provides for monthly rent payments at the current rate being charged for like space, as determined by the landlord. The lease also calls for charges for common area office services used on a monthly basis. The rental rate at December 31, 2017, was \$3,168 per month. For the years ended December 31, 2017 and 2016, rent expense was \$45,407 and \$41,219, respectively.

Future minimum lease payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2018	\$ <u>38,016</u>

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE H - INVESTMENT INCOME

Investment income consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 37,283	\$ 29,213
Investment gains	<u>198,815</u>	<u>47,932</u>
	236,098	77,145
Investment fees	<u>(13,318)</u>	<u>(11,557)</u>
	<u>\$ 222,780</u>	<u>\$ 65,588</u>

NOTE I - RELATED PARTIES

During the years ended December 31, 2017 and 2016, Board members provided \$1,623,656 and \$770,179 in revenue and support to FARA, respectively.

NOTE J - COMMITMENTS

FARA has committed to funding several research grants in 2018 and 2019, assuming that certain benchmarks or other criteria are met by the grant recipients by a certain point in time. As of December 31, 2017, FARA has committed a total of \$2,678,301 for 2018 and \$721,295 for 2019. The grants will fund various research projects, including drug discovery, gene and stem cell therapy, mechanism or pathway of disease, CCRN and cardiac research.

In 2017, the Cure FA Foundation agreed to co-fund four research grants with FARA. Three of the four grants have payment commitments in 2018 and 2019, therefore FARA anticipates co-funding from Cure FA Foundation in the amount of \$487,319 in 2018 and \$62,500 in 2019.

NOTE K - CENTER OF EXCELLENCE

In February 2017, FARA, in partnership with the Hamilton and Finneran families, signed an agreement with the Children's Hospital of Pennsylvania to donate funds to the Center of Excellence over the next three years. The agreement calls for a charitable gift in the amount of \$1,403,500 for the year ended December 31, 2017, \$1,225,500 for the year ended December 31, 2018, and \$1,121,000 is due in the year ended December 31, 2019. In April 2016 the donors signed an agreement to provide FARA with contributions of \$1,403,500, \$1,225,500 and \$1,121,000 in 2017, 2018 and 2019, respectively, towards the Center of Excellence. As of December 31, 2017, one of these commitments have been recorded on FARA's financial statements. The remaining two commitments have not been recorded on FARA's financial statements, as they are contingent upon the review of the Center's work and progress.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE L - EMPLOYEE BENEFIT PLAN

On January 1, 2017 FARA adopted a 401(k) profit sharing plan and trust that covers all qualified employees. The plan provides for a discretionary profit sharing contribution, as well as a matching employer contribution. The Plan provides for matching contributions of 3% on pretax deferrals of eligible employees. The Company made employer matching contributions only during the year ended December 31, 2017 of \$10,043. There were no contributions made for the year ended December 31, 2016.