

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018



Certified Public Accountants and Business Consultants

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

TABLE OF CONTENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

| | Page |
|---|-------------|
| Independent Auditors' Report | 1 |
| Financial Statements | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 |
| Statement of Functional Expenses (2019) | 5 |
| Statement of Functional Expenses (2018) | 6 |
| Statements of Cash Flows | 7 |
| Notes to Financial Statements | 8 |

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, 2019 and 2018 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, 2019 and 2018 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.

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

Emphasis of Matter

As disclosed in Note B to the financial statements, Friedreich's Ataxia Research Alliance adopted new accounting standards update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

As discussed in Note Q, Friedreich's Ataxia Research Alliance is currently experiencing economic uncertainties that have arisen which is likely to have effect on daily operations as a result of the spread of the COVID-19 coronavirus. Management has determined that it is not possible to predict the eventual outcome of the subsequent event. The accompanying financial statements do not include any adjustments related to the subsequent event. Our opinion is not modified with respect to this matter.

Maille LLP

West Chester, Pennsylvania
June 1, 2020

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,821,067 | \$ 2,162,521 |
| Contributions receivable | 191,637 | 195,821 |
| Prepaid expenses | 35,477 | 37,323 |
| Investment in securities | 2,128,027 | 1,620,731 |
| TOTAL CURRENT ASSETS | <u>4,176,208</u> | <u>4,016,396</u> |
| COMPUTER EQUIPMENT, net of accumulated depreciation of \$7,015 (2019) and \$6,629 (2018) | 120 | 506 |
| OTHER ASSETS | | |
| Investment in common stock (See Note E) | <u>10,915</u> | <u>1,091,500</u> |
| TOTAL ASSETS | <u>\$ 4,187,243</u> | <u>\$ 5,108,402</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 385,252 | \$ 130,166 |
| Deferred revenue | <u>9,074</u> | <u>-</u> |
| TOTAL CURRENT LIABILITIES | <u>394,326</u> | <u>130,166</u> |
| NET ASSETS | | |
| Without donor restrictions | 3,668,941 | 4,914,855 |
| With donor restrictions | <u>123,976</u> | <u>63,381</u> |
| TOTAL NET ASSETS | <u>3,792,917</u> | <u>4,978,236</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 4,187,243</u> | <u>\$ 5,108,402</u> |

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Revenue and support | | |
| Contributions | \$ 1,691,858 | \$ 1,019,316 |
| Special events | 4,556,102 | 5,133,236 |
| Investment return | 339,096 | (71,107) |
| Net assets released from restrictions | 1,576,840 | 2,536,365 |
| TOTAL REVENUE AND SUPPORT | <u>8,163,896</u> | <u>8,617,810</u> |
| Expenses | | |
| Program services | | |
| Education, awareness and outreach | 277,770 | 231,494 |
| Patient registry and CCRN | 844,106 | 801,222 |
| Research and grant program | 5,518,193 | 5,625,749 |
| Research conferences | 528,576 | 150,510 |
| TOTAL PROGRAM SERVICES | <u>7,168,645</u> | <u>6,808,975</u> |
| Fund-raising services | | |
| Special events | 862,338 | 876,200 |
| Other fund-raising | 128,511 | 109,905 |
| TOTAL FUND-RAISING SERVICES | <u>990,849</u> | <u>986,105</u> |
| Supporting services | | |
| General and administrative | 169,731 | 116,177 |
| TOTAL EXPENSES | <u>8,329,225</u> | <u>7,911,257</u> |
| Impairment on investment in common stock (see Note E) | <u>1,080,585</u> | <u>-</u> |
| CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | <u>(1,245,914)</u> | <u>706,553</u> |
| NET ASSETS WITH DONOR RESTRICTIONS | | |
| Contributions | 1,637,435 | 2,278,264 |
| Net assets released from restrictions | <u>(1,576,840)</u> | <u>(2,536,365)</u> |
| CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS | <u>60,595</u> | <u>(258,101)</u> |
| CHANGE IN NET ASSETS | (1,185,319) | 448,452 |
| NET ASSETS AT BEGINNING OF YEAR | <u>4,978,236</u> | <u>4,529,784</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 3,792,917</u> | <u>\$ 4,978,236</u> |

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

| | Program Services | | | | Totals | Fund-Raising Services | Supporting | Totals |
|----------------------------------|---|---------------------------------|----------------------------------|-------------------------|---------------------|--------------------------|-------------------------------|---------------------|
| | Education, Awareness and Outreach | Patient Registry and CCRN | Research and Grant Program | Research Conferences | | | General and Administrative | |
| FUNCTIONAL EXPENSES | | | | | | | | |
| Advertising | \$ 5,000 | \$ - | \$ - | \$ - | \$ 5,000 | \$ 175 | \$ 455 | \$ 5,630 |
| Auction items | - | - | - | - | - | 31,415 | - | 31,415 |
| Awards and grants | - | 699,210 | 5,309,603 | 2,500 | 6,011,313 | - | - | 6,011,313 |
| Registration fees | - | - | - | - | - | 6,799 | 834 | 7,633 |
| Contracted services | - | 28,380 | 9,000 | 600 | 37,980 | 91,002 | 18,878 | 147,860 |
| Credit card and bank fees | 35 | 52 | 234 | 9,378 | 9,699 | 90,263 | 747 | 100,709 |
| Facilities and equipment | 248 | 1,149 | - | 94,043 | 95,440 | 180,705 | 2,984 | 279,129 |
| Rent | 4,777 | 2,389 | 9,554 | 2,389 | 19,109 | 23,886 | 4,777 | 47,772 |
| Books and subscriptions | 2,969 | 17,836 | 6,000 | 4,147 | 30,952 | 10,715 | 2,613 | 44,280 |
| Hospitality | - | - | 925 | 500 | 1,425 | 7,480 | 350 | 9,255 |
| Postage | 463 | - | 13 | 46 | 522 | 7,560 | 1,017 | 9,099 |
| Printing and copying | 839 | - | - | 3,320 | 4,159 | 9,581 | 1,293 | 15,033 |
| Supplies | 1,287 | 220 | - | 4,985 | 6,492 | 93,121 | 3,063 | 102,676 |
| Utilities | 1,272 | - | 1,909 | 318 | 3,499 | 1,272 | 1,591 | 6,362 |
| Event entertainment | - | - | - | - | - | 15,900 | - | 15,900 |
| Insurance | - | - | - | - | - | 7,724 | 2,816 | 10,540 |
| Miscellaneous | 322 | - | - | - | 322 | 246 | 166 | 734 |
| Membership dues | 2,600 | - | 953 | - | 3,553 | - | - | 3,553 |
| Payroll, taxes and benefits | 227,139 | 88,659 | 149,566 | 87,265 | 552,629 | 317,311 | 91,915 | 961,855 |
| Sales taxes paid | - | - | - | - | - | 9,828 | - | 9,828 |
| Conferences, meetings and travel | 30,819 | 6,211 | 30,436 | 319,085 | 386,551 | 85,866 | 35,846 | 508,263 |
| Depreciation | - | - | - | - | - | - | 386 | 386 |
| TOTAL FUNCTIONAL EXPENSES | \$ 277,770 | \$ 844,106 | \$ 5,518,193 | \$ 528,576 | \$ 7,168,645 | \$ 990,849 | \$ 169,731 | \$ 8,329,225 |

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

| | Program Services | | | | Totals | Fund-Raising Services | Supporting | Totals |
|----------------------------------|---|---------------------------------|----------------------------------|-------------------------|---------------------|--------------------------|-------------------------------|---------------------|
| | Education, Awareness and Outreach | Patient Registry and CCRN | Research and Grant Program | Research Conferences | | | General and Administrative | |
| FUNCTIONAL EXPENSES | | | | | | | | |
| Advertising | \$ 1,406 | \$ - | \$ - | \$ - | \$ 1,406 | \$ 370 | \$ - | \$ 1,776 |
| Auction items | - | - | - | - | - | 40,222 | - | 40,222 |
| Awards and grants | - | 699,241 | 5,373,695 | 5,000 | 6,077,936 | - | - | 6,077,936 |
| Registration fees | - | - | - | - | - | 9,560 | 517 | 10,077 |
| Contracted services | 3,750 | 25,000 | 5,000 | - | 33,750 | 79,369 | 16,736 | 129,855 |
| Credit card and bank fees | - | 155 | 550 | 243 | 948 | 76,774 | 211 | 77,933 |
| Facilities and equipment | - | - | 311 | 5,174 | 5,485 | 209,610 | 846 | 215,941 |
| Rent | 4,004 | 2,002 | 8,007 | 2,002 | 16,015 | 20,017 | 4,003 | 40,035 |
| Books and subscriptions | 2,810 | - | 6,266 | 49 | 9,125 | 11,740 | 1,707 | 22,572 |
| Hospitality | 1,482 | - | - | - | 1,482 | 9,219 | 1,406 | 12,107 |
| Postage | 198 | - | 20 | 239 | 457 | 7,080 | 952 | 8,489 |
| Printing and copying | - | - | - | 40 | 40 | 8,977 | 1,196 | 10,213 |
| Supplies | 53 | 128 | - | 199 | 380 | 104,571 | 2,593 | 107,544 |
| Utilities | 1,384 | - | 2,076 | 346 | 3,806 | 1,384 | 1,730 | 6,920 |
| Event entertainment | - | - | - | - | - | 9,200 | - | 9,200 |
| Insurance | - | - | - | - | - | 7,887 | 2,816 | 10,703 |
| Miscellaneous | 240 | - | 285 | - | 525 | 408 | 212 | 1,145 |
| Membership dues | 2,600 | - | - | 440 | 3,040 | - | 220 | 3,260 |
| Payroll, taxes and benefits | 188,384 | 68,011 | 199,705 | 73,484 | 529,584 | 297,861 | 62,174 | 889,619 |
| Conferences, meetings and travel | 25,183 | 6,685 | 29,834 | 63,294 | 124,996 | 91,856 | 18,358 | 235,210 |
| Depreciation | - | - | - | - | - | - | 500 | 500 |
| TOTAL FUNCTIONAL EXPENSES | \$ 231,494 | \$ 801,222 | \$ 5,625,749 | \$ 150,510 | \$ 6,808,975 | \$ 986,105 | \$ 116,177 | \$ 7,911,257 |

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (1,185,319) | \$ 448,452 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities | | |
| Net realized (gain) loss on sale of securities | (2,243) | 1,762 |
| Net unrealized (gain) loss on securities | (307,052) | 97,573 |
| Impairment loss on common Stock (See Note E) | 1,080,585 | - |
| Depreciation | 386 | 500 |
| (Increase) decrease in | | |
| Contributions receivable | 4,184 | 162,746 |
| Prepaid expenses | 1,846 | (28,921) |
| Increase (decrease) in | | |
| Accounts payable | 255,086 | (193,028) |
| Deferred revenue | 9,074 | - |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>(143,453)</u> | <u>489,084</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of securities | 133,839 | 342,637 |
| Purchase of securities | <u>(331,840)</u> | <u>(128,889)</u> |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>(198,001)</u> | <u>213,748</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (341,454) | 702,832 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>2,162,521</u> | <u>1,459,689</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 1,821,067</u> | <u>\$ 2,162,521</u> |

See accompanying notes.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE A - ORGANIZATION

Friedreich's Ataxia Research Alliance (FARA) was incorporated under the laws of the District of Columbia as a nonprofit corporation. In 2019, FARA obtained foreign entity status in Pennsylvania. FARA filed for foreign entity status in 2020 for Florida. 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.

Financial Statement Presentation

Under Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-10-65-1, the Organization is required to report information regarding its financial position and activities according to two mutually exclusive classes according to the existence or absence of donor-imposed restrictions. See Net Assets with Donor Restrictions and Net Assets without Donor Restrictions.

Net Assets with Donor Restrictions

The part of net assets of the Organization that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to fund specific research projects. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Net Assets without Donor Restrictions

The part of net assets of the Organization that is not subject to donor-imposed restrictions.

Cash and Cash Equivalents

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

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018.

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 common stock of a nonpublic entity at net realizable value. Unrealized gains and losses and impairment loss on investment in common stock are included in the change in net assets in the accompanying statements of activities.

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 \$386 and \$500 for the years ended December 31, 2019 and 2018, respectively.

Revenue Recognition

Registration fees from special events and conferences are recognized as revenue at a point in time when the event takes place. Special event revenue received in advance is recorded as deferred revenue.

Contributions

In accordance with FASB ASC 958-605, unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, that is, until the barriers to entitlement are overcome, at which point the transactions are recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new accounting standard (ASC Topic 606) that amends the accounting guidance on revenue recognition. The new accounting standard is intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. The principles in the standard should be applied using a five-step model that includes 1) identifying the contract(s) with a customer, 2) identifying the performance obligations in the contract, 3) determining the transaction price, 4) allocating the transaction price to the performance obligations in the contract, and 5) recognizing revenue when (or as) the performance obligations are satisfied. The standard also requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In addition, the standard amends the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, sales of real estate) to be consistent with the standard's guidance on recognition and measurement (including the constraint on revenue). The FASB also subsequently issued several amendments to the standard, including clarification on principal versus agent guidance, identifying performance obligations, and immaterial goods and services in an contract.

The new accounting standard update must be applied using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which requires additional footnote disclosures).

FARA adopted the accounting standard on January 1, 2019 using the modified retrospective approach applied only to applicable contracts not completed as of the date of adoption, with no restatement of comparative periods. The majority of FARA's applicable contracts do not contain variable consideration and applicable contract modifications are generally minimal. Based on FARA's evaluation of its applicable contracts with customers, the majority of the revenue arrangements consist of separate and distinct performance obligations to transfer promised goods or services. The adoption of the pronouncement did not have a material effect on the opening balances of the statement of financial position and statement of activities, including net assets.

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, 2019, \$1,401,458 of FARA's bank balances of \$2,331,671 was exposed to credit risk. At December 31, 2018, \$1,362,490 of FARA's bank balances of \$2,362,490 was exposed to credit risk.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, there were no donated services that met the criteria for recognition as contributed services.

Income Taxes and Uncertain Tax Positions

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.

FARA takes the position that it has no net income derived from unrelated business activities and believes it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

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.

Functional Expenses

The costs of providing FARA's program and other supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, the expenses directly related to the program are combined with allocations of certain common costs of FARA which have been allocated based on estimates made by management. Common costs allocated are payroll, taxes and benefits, as well as rent and utilities. Payroll, taxes and benefits are allocated based on estimates of time and effort. Rent and utilities are allocated on a square-footage basis.

Reclassification

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

Date of Management's Review

Management has evaluated subsequent events through June 1, 2020, the date which the financial statements were available to be issued.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE C - REVENUE RECOGNITION

Performance Obligations and Significant Judgements

For the year ended December 31, 2019, FARA recognized \$356,997 in revenue from special fundraising events and conferences. FARA recognizes revenue from special fundraising events and conferences upon the completion of the event for which registration fees have been earned. The performance obligation consists of providing registrants access to events and is recognized at the point the event has occurred and attended by the registrants.

| | Special Fundraising Events | Conferences | Total |
|--|----------------------------------|-------------|------------|
| Performance obligations satisfied at a point in time | \$ 195,147 | \$ 161,850 | \$ 356,997 |

Contract Assets and Liabilities

Contract assets arise when FARA recognizes revenue for amounts that cannot be billed under the terms of the contract with the customer. FARA does not have any material contract assets as of December 31, 2019 and 2018. Contract liabilities include advance payments for special events and are reported on the Statement of Financial Position as deferred revenue.

NOTE D - LIQUIDITY

The following table reflects FARA's financial assets available for general expenditures within one year as of December 31, 2019. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

| | |
|--|---------------------|
| Cash and cash equivalents | \$ 1,821,067 |
| Contributions receivable | 191,637 |
| Other investments (marketable securities) | 2,128,027 |
| Assets with donor restrictions | <u>(123,976)</u> |
| Assets available for general expenditures and research program commitments within one year | 4,016,755 |
| Current liabilities | (385,252) |
| 2020 research program commitments if benchmarks or milestones are met | <u>(1,959,246)</u> |
| REMAINING ASSETS AVAILABLE FOR GENERAL EXPENDITURES WITHIN ONE YEAR | \$ <u>1,672,257</u> |

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE D – LIQUIDITY (Continued)

FARA structures its financial assets to be available as general expenditures and research program commitments come due. Research program commitments assume that certain benchmarks or other criteria are met. FARA invests excess cash in short term investments (money market funds) and maintains an unrestricted investment reserve (other investments) in highly liquid marketable securities.

NOTE E - INVESTMENT IN COMMON 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. In 2017, Edison underwent a name change to BioElectron Technology Corporation. In August of 2018, FARA converted its preferred shares to common stock. In 2019, BioElectron Technology Corporation ceased operations and all assets were acquired. The value of the stock had decreased to \$.02 per share based on management's determination of the probability they would receive future royalty revenues. As a result, an impairment on investment in common stock was recorded in the current year for \$1,080,585. The value of the investment in common stock was \$10,915 and \$1,091,500, in 2019 and 2018, respectively.

NOTE F - 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.

There were no Level 2 or Level 3 assets at December 31, 2019 or 2018.

Mutual funds are valued at the net asset 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.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE F - FAIR VALUE MEASUREMENTS (Continued)

Donations of marketable securities are recorded as contributions (\$351,436 in 2019 and \$391,575 in 2018) on the date of donation at their fair values, which are based on quoted market prices (Level 1 inputs).

At December 31, 2019, five investment funds represented 64% of FARA's portfolio. In 2018, four investment funds represented 51% of FARA's portfolio.

NOTE G - BOARD-DESIGNATED NET ASSETS

There were no board designations made for the year ended December 31, 2019 or 2018.

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|------------------|
| Restricted to research grants | \$ 107,636 | \$ 30,791 |
| 2019 Energy Ball Sponsorship | - | 25,000 |
| Ataxian Athlete Initiative | 1,200 | 90 |
| Ambassador Training | 5,000 | - |
| Education Initiative: Clinical Trial Design | 10,140 | - |
| 2019 International Ataxia Research Conference | - | 7,500 |
| | <u>\$ 123,976</u> | <u>\$ 63,381</u> |

NOTE I - SPECIAL EVENTS

FARA holds many special events during the year in an effort to raise contributions. During the years ended December 31, 2019 and 2018, FARA hosted the Energy Ball in Tampa, Florida, which raised approximately 21% of FARA's total revenues for 2019 and 29% in 2018.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE J - 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. During 2019, FARA negotiated a new lease with additional space that extends the lease through September 2022. The rental rate at December 31, 2019, was \$4,490 per month. For the years ended December 31, 2019 and 2018, rent expense was \$47,772 and \$40,035, respectively.

Future minimum lease payments are as follows:

| <u>Year Ending</u> <u>December 31,</u> | | |
|---|----|-----------------------|
| 2020 | \$ | 53,883 |
| 2021 | | 54,220 |
| 2022 | | <u>41,423</u> |
| | \$ | <u><u>149,526</u></u> |

NOTE K - INVESTMENT RETURN

Investment return consists of the following:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|--------------------------|---------------------------|
| Interest and dividends | \$ 45,344 | \$ 42,297 |
| Net investment gains (losses) | <u>309,295</u> | <u>(99,335)</u> |
| | 354,639 | (57,038) |
| Investment fees | <u>(15,543)</u> | <u>(14,069)</u> |
| | \$ <u><u>339,096</u></u> | \$ <u><u>(71,107)</u></u> |

NOTE L - RELATED PARTIES

During the years ended December 31, 2019 and 2018, Board members provided \$1,309,710 and \$2,089,370 in revenue and support to FARA, respectively.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE M - COMMITMENTS

FARA has committed to funding several research grants in 2020, assuming that certain benchmarks or other criteria are met by the grant recipients by a certain point in time. As of December 31, 2019, FARA has committed a total of \$1,959,246 for 2020. The grants will fund various research projects, including drug discovery, gene and stem cell therapy, mechanism or pathway of disease, biomarker discovery and validation, cardiac research and the Collaborative Clinical Research Network (CCRN) natural history and clinical outcome measures study.

NOTE N - CENTER OF EXCELLENCE

In April 2016 the donors, the Hamilton and Finneran families, 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. In February 2017, FARA, in partnership with the Hamilton and Finneran families, signed an agreement with the Children's Hospital of Philadelphia to donate funds for 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, \$1,225,000 for the year ended December 31, 2018, and \$1,121,000 for the year ended December 31, 2019. As of December 31, 2019, all commitments by the donors and payment obligations to the Center of Excellence have been met and recorded on FARA's financial statements. FARA and the Hamilton and Finneran families are discussing funding support for the Center of Excellence but no agreements have been executed at the time these statements were prepared.

NOTE O - 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 up to 3% on deferrals from eligible employees. FARA made employer matching contributions of \$21,362 and \$15,310 during the years ended December 31, 2019 and 2018, respectively.

NOTE P - 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 3,500 Friedreich's ataxia patients from across the United States and internationally. This registry was created to serve the patient, physician, and research communities. In 2019, FARA migrated the registry data to a new registry software platform hosted by Pulse Inframe, in order to meet the growing and evolving research needs and global data security standards.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE P - PATIENT REGISTRY AND CCRN (Continued)

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. In 2019, FARA added several sites to the CCRN in FA; University of Colorado, Denver, CO, USA, University of Auckland, Auckland, New Zealand, and Centre hospitalier de l'Universite de Montreal (CHUM), Montreal, Canada. 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

NOTE Q - SUBSEQUENT EVENTS

FARA evaluated its December 31, 2019 financial statements for subsequent events through the date the financial statements were issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to have effect on daily operations. Financial impact could occur though such potential impact is unknown at this time. In April 2020 FARA applied for and secured a loan in the amount of \$174,600 under the Small Business Administration's Paycheck Protection Program. The loan accrues interest at 1%, payments are deferred for the first six months and the loan will mature in April 2022. Under this Program, the loan and accrued interest, or a portion thereof, may be forgiven after eight weeks as long as FARA uses the loan proceeds for eligible purposes including payroll, benefits, rent, utilities, and maintains its payroll levels.

In April 2020, FARA received a restricted grant in the amount of \$4,082,485 to support targeted research initiatives and operational growth. For 2020, FARA expects to release \$1,750,000 for directed research projects including an international neuroimaging biomarker study, development and validation of a potency assay for use in development of gene and protein replacement strategies, development of a disease specific (FA) rat model, defining and targeting mechanisms of gene silencing in FA for therapeutic development and understanding the therapeutic index of frataxin. These projects were identified as strategic research priorities to advance FARA's mission to treat and cure FA. The portion of the grant restricted for operational growth, \$2,332,485 over three years, will allow FARA to expand organizational capacity and effectiveness by creating and staffing four new positions: Chief Scientific Officer; Director of Global Relations and Initiatives; Director of Clinical Research; and Executive Administrative Assistant & Director of Special Projects.