Foundation for Prader-Willi Research, Inc.

Financial Statements

December 31, 2019

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

Board of Directors
Foundation for Prader-Willi Research, Inc.

We have audited the accompanying financial statements of Foundation for Prader-Willi Research, Inc. (the "Foundation"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, 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 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 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 the Foundation as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived except for the amounts related to the restatement, the details of which can be found in Note 8.

PKF O'Connor Davies, LLP

October 30, 2020

Foundation for Prader-Willi Research, Inc.

Statement of Financial Position
December 31, 2019
(with comparative amounts at December 31, 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	$ 2,137,030	$ 2,284,417
Contributions receivable, net	183,738	73,165
Prepaid expenses	64,235	24,977
Property and equipment, net	6,193	-
Mission related investment, at cost	150,000	-
Investments	3,171,213	3,099,419
	$ 5,712,409	$ 5,481,978
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 89,961	$ 244,600
Grants payable	2,018,768	1,227,992
Total Liabilities	2,108,729	1,472,592
Net Assets		
Without donor restrictions	3,205,976	3,678,784
With donor restrictions	397,704	330,602
Total Net Assets	3,603,680	4,009,386
	$ 5,712,409	$ 5,481,978

See notes to financial statements

Foundation for Prader-Willi Research, Inc.

Statement of Activities
Year Ended December 31, 2019
(with summarized totals for year ended December 31, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Gifts and contributions	$ 3,183,626	$ 435,816	$ 3,619,442	$ 3,488,148
Special events revenue, net of costs of direct benefit to donors of $123,397 and $190,024	164,693	-	164,693	464,633
Conference revenue	223,944	-	223,944	159,797
Investment return	80,221	-	80,221	59,005
Net assets released from restrictions	368,714	(368,714)	-	-
Total Revenue and Support	4,021,198	67,102	4,088,300	4,171,583
EXPENSES				
Programs	3,750,071	-	3,750,071	2,926,682
General and administrative	432,477	-	432,477	522,179
Fundraising	311,458	-	311,458	340,358
Total Expenses	4,494,006	-	4,494,006	3,789,219
Change in Net Assets	(472,808)	67,102	(405,706)	382,364
NET ASSETS				
Beginning of year, as restated	3,678,784	330,602	4,009,386	3,627,022
End of year	$ 3,205,976	$ 397,704	$ 3,603,680	$ 4,009,386

See notes to financial statements

Foundation for Prader-Willi Research, Inc.

Statement of Functional Expenses
Year Ended December 31, 2019
(with summarized totals for the year ended December 31, 2018)

	2019					
	Programs	General and Administrative	Fundraising	Cost of Direct Benefit to Donors	Total	2018 Total
Research grants, net of refunds of $473 and $5,941	$ 2,534,954	$ -	$ -	$ -	$ 2,534,954	$ 1,911,879
Personnel costs	806,290	158,851	232,395	-	1,197,536	1,116,381
Professional fees	94,917	175,714	8,390	-	279,021	279,000
Travel	64,728	9,937	6,039	-	80,704	78,542
Catering	85,758	319	-	37,800	123,877	167,567
Website	173	8,827	13,144	-	22,144	7,470
Bank fees	55	5,151	22,417	-	27,623	35,397
Insurance	-	12,553	-	-	12,553	17,039
Postage and printing	15,225	786	16,056	-	32,067	21,698
Supplies	3,897	3,406	84	50,969	58,356	73,110
Dues and subscriptions	17,252	48,377	1,199	-	66,828	63,236
Taxes and licenses	598	289	-	-	887	331
Telephone	-	4,453	-	-	4,453	5,020
Location rental	24,879	110	-	24,228	49,217	120,420
Other expenses	101,345	278	11,734	-	113,357	46,576
Bad debt	-	-	-	-	-	22,500
Marketing and promotion	-	2,652	-	-	2,652	7,303
Entertainment	-	-	-	10,400	10,400	5,774
Depreciation	-	774	-	-	774	-
	3,750,071	432,477	311,458	123,397	4,617,403	3,979,243
Less direct benefit to donors	-	-	-	(123,397)	(123,397)	(190,024)
Total Expenses Reported by Function on Statement of Activities	$ 3,750,071	$ 432,477	$ 311,458	$ -	$ 4,494,006	$ 3,789,219

See notes to financial statements

Foundation for Prader-Willi Research, Inc.

Statement of Cash Flows
Year Ended December 31, 2019
(with comparative amounts for year ended December 31, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (405,706)	$ 382,364
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	774	-
Unrealized gain on investments	(25,975)	(18,960)
Bad debt expense	-	22,500
Changes in operating assets and liabilities		
Contributions receivable	(110,573)	35,795
Prepaid expenses	(39,258)	(6,984)
Accounts payable and accrued expenses	(154,639)	205,345
Grants payable	790,776	87,426
Net Cash from Operating Activities	55,399	707,486
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,967)	-
Purchases of investments	(1,545,819)	(3,322,936)
Net proceeds from sales of investments	1,500,000	3,286,000
Purchase of mission related investment	(150,000)	-
Net Cash from Investing Activities	(202,786)	(36,936)
Net Change in Cash and Cash Equivalents	(147,387)	670,550
CASH AND CASH EQUIVALENTS		
Beginning of year	2,284,417	1,613,867
End of year	$ 2,137,030	$ 2,284,417

See notes to financial statements

1. Organization and Tax Status

The Foundation for Prader-Willi Research, Inc. (the "Foundation") is a nonprofit organization founded in 2003, to eliminate the challenges of Prader-Willi syndrome through the advancement of research and therapeutic development. The Foundation makes grants to projects conducting research related to Prader-Willi syndrome.

The Foundation operates as public charity under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Adoption of New Accounting Policies

Revenue from Contracts with Customers

Effective January 1, 2019, the Foundation adopted ASU 2014-09, *Revenue from Contracts with Customers*, as amended.

This guidance provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. This guidance requires new or expanded disclosures related to judgements made by entities when following this framework.

Analysis of the various provisions of this standard resulted in no significant changes in the way the Foundation recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. Conference revenue is recognized when the conference takes place. This new guidance requires the Foundation to not recognize revenue until it is probable of collection. Based on the Foundation's prior collection history, the Foundation as concluded that all revenue recognized is probable of collection.

2. Summary of Significant Accounting Policies *(continued)*

Adoption of New Accounting Policies (continued)

Recognition of Contributions

Effective January 1, 2019, the Foundation adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This guidance provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as non-exchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the Foundation recognized contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Without donor restrictions – consist of resources available for the general support of the Foundation's operations. Net assets without donor restrictions may be used at the discretion of the Foundation's management and board of directors.

With donor restrictions – represent amounts restricted by donors to be used for specific activities or at some future date, or which require the Foundation to maintain in perpetuity, the income of which can be used for specific or general purposes. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Property and Equipment

The Foundation follows the practice of capitalizing all expenditures for property and equipment with a cost in excess of $1,000 and a useful life of three years or more. Property and equipment are reflected at cost, or fair value at the time of the donation. Depreciation and amortization is recognized on a straight-line basis over 3 years.

When property and equipment is sold, retired or disposed, the cost and related accumulated depreciation is removed from the accounts and any gain or loss is reported in the statement of activities.

2. Summary of Significant Accounting Policies *(continued)*

Fair Value Measurements

The Foundation follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable and used to the extent that observable inputs do not exist.

Investments and Investment Income Recognition

Purchases and sales of investments are recorded on a trade-date basis. Interest and dividend income is recorded when earned. Unrealized gains and losses are included in the determination of the change in net assets.

Grants Payable

The Foundation recognizes grant expense in the period in which the commitment is made. Grants payable consists of amounts not paid at year end under these commitments. All grants payable are expected to be paid within one year.

Revenue Recognition

The Foundation recognizes conference revenue when earned, which is the period in which the conference takes place. The Foundation recognizes grants, contributions and pledges as revenues and support in the period in which they are promised. All contributions receivable are expected to be paid within one year. Management deems all receivable amounts to be fully collected within the year, therefore, no allowance has been established.

Marketing and Promotion

Marketing and promotion expenses have been charged to operations as incurred.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Foundation allocates direct costs to program services. Supporting services include management and general and fundraising. Allocated expenses among program services and management and general, and fundraising include salaries and related expenses, staff travel, consulting and professional fees, and other expenses which are allocated based on time and costs where efforts are made.

2. Summary of Significant Accounting Policies *(continued)*

Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

Prior Year Summarized Comparative Information

Information as of and for the year ended December 31, 2018 is presented for comparative purposes only. Certain activity by functional expense and net asset classification is not included in these financial statements. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements as of and for the year ended December 31, 2018, from which the summarized comparative information was derived.

Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and contributions receivable. The Foundation maintains its cash accounts with a major financial institution which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant risk. Investments primarily consist of money market and US treasury bills, and is overseen by the board. The Foundation believes no significant concentration of credit risk exist with respect to its contributions due to the historical collection rate.

Contributed Services

A number of volunteers have donated significant amounts of time to the Foundation's fundraising efforts; however, these donated services are not reflected in the financial statements as they do not meet the criteria for recognition as contributed services.

Accounting for Uncertainty in Income Taxes

The Foundation recognizes the effect of income tax positions only if those positions are more likely not to be sustained. Management has determined that the Foundation had no uncertain positions that would require financial statement recognition or disclosure. The Foundation is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2016.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is dated October 30, 2020.

3. Property and Equipment

Property and equipment consisted of the following at December 31, 2019:

Computer equipment	$ 6,967
Less: accumulated depreciation	774
	$ 7,741

4. Mission Related Investment

Mission related investments are made with the objective of achieving a social impact with market returns. At December 31, 2019, the mission related investment consisted of a promissory note in the principal amount of $150,000, with an interest rate of 10%. There are convertible features to the promissory note if a drug were to come to market.

5. Investments

The following is a summary of investments measured at fair value by major types as of December 31:

	2019	2018
Level 1 investments		
Mutual fund-equities	$ 6,520	$ 5,290
US Treasury bill	-	1,486,440
Investment cash, at cost	3,164,693	1,607,689
Total investments	$ 3,171,213	$ 3,099,419

6. Liquidity and Availability of Financial Assets

Assets available to meet cash needs for general expenditures within one year, without contractual or donor restrictions as of December 31, consist of the following:

	2019	2018
Cash and cash equivalents	$ 183,738	$ 73,165
Contributions receivable, net	64,235	24,977
Mission related investment	3,171,213	-
Investments	-	-
Financial Assets at Year-End	3,419,186	98,142
Less:		
Mission related investment (illiquid)	(3,171,213)	-
Donor-imposed restrictions	(3,603,680)	(4,009,386)
	(6,774,893)	(4,009,386)
Financial Assets at Year-End Available to Meet Cash Needs for General Expenditure Within One Year	$ (3,355,707)	$ (3,911,244)

The Foundation's cash flows have seasonal variation during the year due to the Foundation's activity during the traditional fundraising season. The Foundation is typically able to manage liquidity through donations. The Foundation regularly monitors the availability of resources required to meet its operating needs and other contractual commitments.

7. Subsequent Events

In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease ("COVID-19") as a pandemic. Management will continue to monitor the situation closely and it is possible that the Foundation will need to implement further measures. In light of the uncertainty as to the severity and duration of the pandemic, the impact on the Foundation's revenue, profitability, and financial position is uncertain at this time.

On April 10, 2020, the Foundation received a $159,300 loan through the Small Business Administration related to the Paycheck Protection Program at a fixed interest rate of 1%. The Foundation may apply for forgiveness of this loan in accordance with the requirements of the Paycheck Protection Program, including the provisions of Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

8. Restatement

The Foundation restated certain amounts reported in the 2018 financial statements to expense grants related to agreements executed during 2018. For the year ended December 31, 2018, $172,800 of grants executed, were not included as grant expense and a related grants payable amount on the statement of activities and statement of financial position and, as a result, net assets was restated as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets at December 31, 2018, as previously reported	$ 3,851,584	$ 330,602	$ 4,182,186
Adjustments to add grants expense	(172,800)	-	(172,800)
Net Assets at December 31, 2018, as restated	$ 3,678,784	$ 330,602	$ 4,009,386

As a result of the restatement disclosed above, there were additional restatements to the December 31, 2018 balances, which were as follows:

Grants payable at December 31, 2018, as previously reported	$ 1,055,192
Adjustments to accrue grants payable executed in 2018	172,800
Grants payable at December 31, 2018, as restated	$ 1,227,992
Expenses less direct benefit to donors for the year ended December 31, 2018, as previously reported	$ 3,616,419
Adjustments to expense grants executed in 2018	172,800
Expenses less direct benefit to donors for the year ended December 31, 2018, as restated	$ 3,789,219
Change in net assets for the year ended December 31, 2018, as previously reported	$ 555,164
Adjustments to reduce change in in net assets in 2018	172,800
Change in net assets for the year ended December 31, 2018, as restated	$ 382,364

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