

Foundation for Prader-Willi Research, Inc.

Financial Statements

December 31, 2018

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, 2018, 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, 2018, 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.

Change in Accounting Principle

As discussed in note 2 to the financial statements, during the year ended December 31, 2018 the Foundation adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

October 4, 2019

Foundation for Prader-Willi Research, Inc.

Statement of Financial Position
December 31, 2018
(with comparative amounts at December 31, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,284,417	\$ 1,613,867
Contributions receivable, net	73,165	131,460
Prepaid expenses	24,977	17,993
Investments	<u>3,099,419</u>	<u>3,043,523</u>
	<u>\$ 5,481,978</u>	<u>\$ 4,806,843</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 244,600	\$ 39,255
Grants payable	<u>1,055,192</u>	<u>1,140,566</u>
Total Liabilities	<u>1,299,792</u>	<u>1,179,821</u>
Net Assets		
Without donor restrictions	3,851,584	3,627,022
With donor restrictions	<u>330,602</u>	<u>-</u>
Total Net Assets	<u>4,182,186</u>	<u>3,627,022</u>
	<u>\$ 5,481,978</u>	<u>\$ 4,806,843</u>

See notes to financial statements

Foundation for Prader-Willi Research, Inc.

Statement of Activities
Year Ended December 31, 2018
(with comparative totals for year ended December 31, 2017)

	2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
REVENUE AND SUPPORT				
Gifts and contributions	\$ 3,090,043	\$ 398,105	\$ 3,488,148	\$ 2,690,037
Special events functional revenue, net of direct costs of \$190,024 and \$86,623	464,633	-	464,633	500,815
Conference revenue	159,797	-	159,797	-
Investment return	59,005	-	59,005	26,542
Net assets released from restrictions	67,503	(67,503)	-	-
Total Revenue and Support	<u>3,840,981</u>	<u>330,602</u>	<u>4,171,583</u>	<u>3,217,394</u>
OPERATING EXPENSES				
Programs	2,753,882	-	2,753,882	2,202,930
General and administrative	522,179	-	522,179	409,505
Fundraising	340,358	-	340,358	337,363
Total Operating Expenses	<u>3,616,419</u>	<u>-</u>	<u>3,616,419</u>	<u>2,949,798</u>
Change in Net Assets	224,563	330,602	555,165	267,596
NET ASSETS				
Beginning of year	<u>3,627,022</u>	<u>-</u>	<u>3,627,022</u>	<u>3,359,426</u>
End of year	<u>\$ 3,851,584</u>	<u>\$ 330,602</u>	<u>\$ 4,182,186</u>	<u>\$ 3,627,022</u>

See notes to financial statements

Foundation for Prader-Willi Research, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2018
(with summarized totals for the year ended December 31, 2017)

	2018				2017 Total	
	Programs	General and Administrative	Fundraising	Direct Costs of Special Events		Total
OPERATING EXPENSES						
Research grants, net of refunds of \$5,941 and \$5,000	\$ 1,739,079	\$ -	\$ -	\$ -	\$ 1,739,079	\$ 1,493,322
Personnel costs	662,916	295,393	158,072	-	1,116,381	759,357
Professional fees	101,333	137,557	40,110	-	279,000	344,993
Travel	60,437	7,381	10,724	-	78,542	45,073
Catering	112,285	1,844	3,821	49,617	167,567	128,454
Website	187	7,283	-	-	7,470	2,066
Bank fees	-	4,818	30,579	-	35,397	24,586
Insurance	8,296	6,669	2,074	-	17,039	10,238
Postage and printing	4,162	1,104	16,432	-	21,698	18,988
Supplies	6,774	2,251	22,639	41,446	73,110	52,381
Dues and subscriptions	14,923	48,314	-	-	63,237	76,558
Taxes and licenses	-	331	-	-	331	291
Telephone	-	5,020	-	-	5,020	5,092
Location rental	13,116	1,266	12,506	93,532	120,420	36,879
Other expenses	29,435	1,202	15,938	-	46,575	28,818
Bad debt	-	-	22,500	-	22,500	-
Marketing and promotion	939	1,746	4,618	-	7,303	3,268
Entertainment	-	-	345	5,429	5,774	5,127
Miscellaneous expenses	-	-	-	-	-	930
Total Expenses	<u>2,753,882</u>	<u>522,179</u>	<u>340,358</u>	<u>190,024</u>	<u>3,806,443</u>	<u>3,036,421</u>
Less costs with direct benefit to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>(190,024)</u>	<u>(190,024)</u>	<u>(86,623)</u>
Total Functional Expenses	<u>\$ 2,753,882</u>	<u>\$ 522,179</u>	<u>\$ 340,358</u>	<u>\$ -</u>	<u>\$ 3,616,419</u>	<u>\$ 2,949,798</u>

See notes to financial statements

Foundation for Prader-Willi Research, Inc.

Statement of Cash Flows
Year Ended December 31, 2018
(with comparative amounts for year ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 555,165	\$ 267,596
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized gain on investments	(18,960)	(893)
Bad debt expense	22,500	-
Changes in operating assets and liabilities		
Contributions receivable	35,795	(130,788)
Prepaid expenses	(6,984)	(3,861)
Accounts payable and accrued expenses	205,345	(18,800)
Grants payable	(85,374)	(319,776)
Net Cash from Operating Activities	707,487	(206,522)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,322,936)	(3,508,827)
Net proceeds from sales of investments	3,286,000	3,485,000
Net Cash from Investing Activities	(36,936)	(23,827)
 Net Change in Cash and Cash Equivalents	670,551	(230,349)
 CASH AND CASH EQUIVALENTS		
Beginning of year	1,613,867	1,844,216
End of year	\$ 2,284,417	\$ 1,613,867

See notes to financial statements

Foundation for Prader-Willi Research, Inc.

Notes to Financial Statements
December 31, 2018

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.

Change in Accounting Principle

On January 1, 2018, the Foundation adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Foundation to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Foundation to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

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.

Foundation for Prader-Willi Research, Inc.

Notes to Financial Statements
December 31, 2018

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

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.

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 recognized conference revenue when earned. 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.

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.

Foundation for Prader-Willi Research, Inc.

Notes to Financial Statements
December 31, 2018

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

Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

Prior Year Summarized Comparative Information

Information as of and for the year ended December 31, 2017 is presented for comparative purposes only. Certain activity by functional expense 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 Organization's financial statements as of and for the year ended December 31, 2017, 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 time, 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 markets, US treasury bills, and mutual funds, 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 2015.

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 4, 2019.

Foundation for Prader-Willi Research, Inc.

Notes to Financial Statements
December 31, 2018

3. Investments

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

	<u>2018</u>	<u>2017</u>
Level 1 investments		
Mutual fund-equities	\$ 5,290	\$ 5,197
US Treasury bill	1,486,440	-
Certificates of deposits, at cost plus accrued interest	-	2,035,483
Investment cash, at cost	<u>1,607,689</u>	<u>1,002,843</u>
Total investments	<u>\$ 3,099,419</u>	<u>\$ 3,043,523</u>

Certificates of deposit are stated at cost plus any accrued interest (which approximates fair value). The certificates of deposit at December 31, 2017 bore interest ranging from 1.15% and 1.50%. All certificates of deposit matured in 2018.

4. Liquidity and Availability

Assets available to meet cash needs for general expenditures within one year, without contractual or donor restrictions as of December 31, 2018 consist of the following:

Financial Assets:	
Cash and cash equivalents	\$ 2,284,417
Contributions receivable, net	73,165
Investments	<u>3,099,419</u>
Total Financial Assets	5,457,001
Less:	
Donor-imposed restrictions	<u>(330,602)</u>
Financial Assets Available to Meet Cash Needs for General Expenditure Within One Year	<u>\$ 5,126,399</u>

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.

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