

SCLERODERMA RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

For the Eight Month Period Ended
December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Scleroderma Research Foundation
San Francisco, California

We have audited the accompanying financial statements of the Scleroderma Research Foundation (a California nonprofit public benefit corporation) which comprise the statement of financial position as of December 31, 2019, and the related statement of activities, functional expenses, and cash flows for the period 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.

Auditor's 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 audits 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 auditor's 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 Scleroderma Research Foundation as of December 31, 2019, and the changes in its net assets and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

June 26, 2020



SCLERODERMA RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

December 31, 2019

	2019
ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 5,079,469
Prepaid expenses	34,180
Accounts receivable Current portion (Notes 2 and 3)	495,333
Total current assets	<u>5,608,982</u>
Deposits	9,040
Accounts receivable, net of current portion (Notes 2 and 3)	666,667
Investments (Note 4)	3,340,731
Fixed assets, net of accumulated depreciation of \$124,185 (Notes 2 and 5)	<u>21,038</u>
Total assets	<u><u>\$ 9,646,458</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 387,182
Deferred revenue	200,000
Total current liabilities	<u>587,182</u>
Net assets:	
Net assets without donor restrictions	6,199,006
Net assets with temporary donor restrictions (Note 10)	2,860,270
Total net assets	<u>9,059,276</u>
Total liabilities and net assets	<u><u>\$ 9,646,458</u></u>

The accompanying notes are an integral part of these financial statements.

SCLERODERMA RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
For the eight month period ended December 31, 2019

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
SUPPORT, REVENUE AND TRANSFERS			
Contributions	\$ 756,311	\$ 1,500,000	\$ 2,256,311
Revenue			
Investment income (Note 4)	245,623	-	245,623
Special events revenue of \$711,943 net of expenses of \$244,759 (Note 6)	467,184	-	467,184
Total revenue	<u>1,469,118</u>	<u>1,500,000</u>	<u>2,969,118</u>
Net assets released from restrictions	176,817	(176,817)	-
Total support, revenue and transfers	<u>1,645,935</u>	<u>1,323,183</u>	<u>2,969,118</u>
EXPENSES			
Program	619,636	-	619,636
Management and general	298,316	-	298,316
Fundraising	140,841	-	140,841
Total expenses	<u>1,058,793</u>	<u>-</u>	<u>1,058,793</u>
Change in net assets	587,142	1,323,183	1,910,325
Net assets, beginning of year	<u>5,611,864</u>	<u>1,537,087</u>	<u>7,148,951</u>
Net assets, end of year	<u>\$ 6,199,006</u>	<u>\$ 2,860,270</u>	<u>\$ 9,059,276</u>

The accompanying notes are an integral part of these financial statements.

SCLERODERMA RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS
For the eight month period ended December 31, 2019

	2019
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	<u>\$ 1,910,325</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	6,974
Realized loss on investments	26,205
Unrealized (gain) on investments	(196,916)
Contributions of marketable equity securities	(131,810)
Changes in assets and liabilities	
Accounts receivable	(139,563)
Prepaid expenses	(14,668)
Deposits	(574)
Accounts payable and accrued expenses	90,585
Deferred revenue	200,000
Total adjustments	<u>(159,767)</u>
Net cash provided by operating activities	<u>1,750,558</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in investments	(349,877)
Purchase of furniture and equipment	(7,322)
Net cash (used) by investing activities	<u>(357,199)</u>
Net increase in cash and cash equivalents	1,393,359
Cash and cash equivalents, beginning of year	<u>3,686,110</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,079,469</u></u>
Supplementary information:	
Non-cash transactions:	
Contribution of marketable equity securities	<u><u>\$ 131,810</u></u>

The accompanying notes are an integral part of these financial statements.

SCLERODERMA RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
For the eight month period ended December 31, 2019

	Program Services	Management and General	Fundraising	Total
Research expenses	\$ 374,309	\$ -	\$ -	\$ 374,309
Salaries and wages	99,107	31,081	57,624	187,812
Payroll taxes and benefits	13,945	4,335	8,342	26,622
Advertising	10,600	1,839	1,084	13,523
Professional fees	12,358	96,500	15,457	124,315
Conferences and meetings	60,719	-	-	60,719
Postage	754	1,404	77	2,235
Printing and production	1,113	1,635	12,002	14,750
Rent	30,745	10,349	17,306	58,400
Information Technology	7,354	45,549	3,992	56,895
Office expenses	343	18,170	23,967	42,480
Depreciation	-	6,974	-	6,974
Insurance	-	2,404	-	2,404
Fees, dues and subscriptions	-	1,483	-	1,483
Travel	8,241	6,146	705	15,092
Recruitment	-	69,782	285	70,067
Other expenses	48	665	-	713
Total expenses	\$ 619,636	\$ 298,316	\$ 140,841	\$ 1,058,793

The accompanying notes are an integral part of these financial statements.

SCLERODERMA RESEARCH FOUNDATION
(A California Nonprofit Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the eight month period ended December 31, 2019

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Scleroderma Research Foundation (the Corporation), a California nonprofit public benefit corporation, was incorporated in California in 1986 to advance science by sponsoring individual and organizational research to ultimately find a cure for progressive systemic sclerosis, or Scleroderma. The Corporation's major sources of revenue are contributions and proceeds from special events.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The financial statements of the Corporation are prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

Contributions and Revenue Recognition - Contributions consist of cash contributions as well as in-kind goods and services provided to the Corporation. Contributed services are recognized at their fair value if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Donated securities are recorded at their fair value at the date of donation.

Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Multi-year pledges are recorded at present value.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to net assets without donor restrictions.

Accounts Receivable - It is the practice of the Corporation to expense uncollectibles only after exhausting all efforts to collect the amounts due. There is no allowance for doubtful accounts and management believes all amounts will be collected in full.

SCLERODERMA RESEARCH FOUNDATION
(A California Nonprofit Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the eight month period ended December 31, 2019

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Corporation is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Net assets without donor restrictions - Net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

Net assets with temporary donor restrictions - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations, (b) from other asset enhancements and diminishments that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net.

Net assets with permanent donor restrictions - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation, (b) from other asset enhancements and diminishments that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Fair Value Measurements – The Corporation carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received if selling an asset or paid if transferring a liability in an orderly transaction between market participants at the measurement date. Fair value measurement standards also require the Corporation to classify these financial instruments into a three-level hierarchy. The Corporation classifies its financial assets and liabilities according to the below three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 – Quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities, without adjustment.

Level 2 – Quoted prices in markets that are not considered to be active for identical or similar assets or liabilities, quoted prices in active markets of similar assets or liabilities, and inputs other than quoted prices that are observable or can be corroborated by observable market data.

Level 3 – Inputs that are both significant to the fair value measurement and unobservable, including inputs that are not derived from market data or cannot be corroborated by market data.

The Corporation's carrying amounts of its assets and liabilities, including its investments presented in Note 4, approximate fair value under Level 1 and Level 2 for the eight month period ended December 31, 2019.

As of December 31, 2019, there were no net assets with permanent donor restrictions.

SCLERODERMA RESEARCH FOUNDATION
(A California Nonprofit Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the eight month period ended December 31, 2019

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Equipment, and Leasehold Improvements - The Corporation records property, equipment, and leasehold improvements at cost of acquisition, or, if donated, the fair market value at the date of donation. Depreciation is recognized using the straight-line method over the useful lives of the assets, which range from three to five years. The Corporation capitalizes all property, equipment, and improvements with a cost in excess of \$1,500.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual future results could differ from those estimates.

Functional Allocation of Expenses - The costs of providing the various programs, supporting services and other activities have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates and analysis of personnel time spent on each program and activity.

Advertising Costs - It is the policy of the Corporation to expense advertising costs as incurred.

Income Taxes - The Corporation is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Service Code and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be an organization other than a private Foundation. In the opinion of management, there is no unrelated business income.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*, amending the ASC 958. This update changes the presentation of certain information in the financial statements and footnote disclosures of not-for-profit entities. The update also changes the way that not-for-profit entities classify net assets. The new guidance is effective for the Corporation for the period beginning January 1, 2019.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for the Corporation's period beginning January 1, 2019, with early adoption permitted.

SCLERODERMA RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the eight month period ended December 31, 2019

NOTE 3 ACCOUNTS RECEIVABLE

During the eight month period ending December 31, 2019, the Corporation received a contribution of \$1,000,000 to be received over 3 years. \$333,000 was received in January 2020. The remaining payments are conditional on achieving certain milestones of enrollment goals of 1,361 in 2021 and 2,062 in 2022. The Corporation is confident these goals will be met.

NOTE 4 INVESTMENTS

Investments, which are carried at market value and subject to market risk, consist of the following at December 31, 2019:

	Cost	Market
Mutual bonds (Level 2)	\$ 423,852	\$ 550,309
Corporate bonds (Level 2)	433,579	450,751
Mutual bond and equity funds (Level 2)	742,709	756,482
Government securities (Level 2)	487,649	502,142
Equities (Level 1)	956,817	1,081,047
	\$ 3,044,606	\$ 3,340,731

The following summarizes the investment income for the eight month period ended December 31, 2019:

	2019
Interest and dividends	\$ 74,912
Realized (loss)	(33,672)
Unrealized gain	196,916
Gain on sale of assets	7,467
	\$ 245,623

NOTE 5 FIXED ASSETS

Fixed assets consist of the following at December 31, 2019:

	2019
Furniture and equipment	\$ 43,215
Software	102,008
Total fixed assets, year-end	145,223
Less: accumulated depreciation	(124,185)
Fixed assets, net of accumulated depreciation	\$ 21,038

For the eight month period ended December 31, 2019, depreciation expense was \$6,974.

SCLERODERMA RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the eight month period ended December 31, 2019

NOTE 6 SPECIAL EVENTS

The Corporation's special events revenue consists of funds raised from an event held in New York, entitled "Cool Comedy, Hot Cuisine".

Details of the event held during the period ended December 31, 2019, are as follows:

	Event Income	Event Expense	Net Income
(2019) Cool Comedy, Hot Cuisine	\$ 711,943	\$ 244,759	\$ 467,184

NOTE 7 RESEARCH FUNDING

During the eight month period ended December 31, 2019, the Corporation made research grants to the following:

Columbia University	\$ 2,392
George Washington University	1,075
Georgetown University	3,225
Hospital for Special Surgery, New York	11,126
Johns Hopkins University	19,963
Mass General Hospital	11,664
Medical University South Carolina	13,303
Northwestern University	13,034
St. Vincent's Hospital	25,000
Stanford University	1,616
University of Michigan	20,500
University of Pennsylvania	23,014
University of Texas	37,736
University of Utah, McGovern Medical School	16,200
University of Utah	174,461
	\$ 374,309

The grants, totaling \$374,309 made during the eight month period ended December 31, 2019, were made to support multi-disciplined collaborative scientific research to find a cure for Scleroderma

SCLERODERMA RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the eight month period ended December 31, 2019

NOTE 8 OPERATING LEASES

The Corporation leases its offices in San Francisco, California. The term of the lease expires in September, 2021. Rent expense for the period ended December 31, 2019 was \$58,400 (office lease \$57,007 and storage \$1,393).

Estimated future minimum payments for the office lease are as follows:

<u>December 31,</u>	
2020	\$ 84,875
2021	<u>64,314</u>
	<u>\$ 149,189</u>

NOTE 9 LIQUIDITY MANAGEMENT

As part of Scleroderma's liquidity management strategy, Scleroderma structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. Scleroderma's working capital and cash flows have cyclical variations during the year attributable to the cash receipts of contributions and grants, and membership fees, if applicable. The Corporation has sufficient cash and cash equivalents to meet its current needs and investments which can be converted to cash for periods when cash is not available. Specific amounts and types of current assets available to be used for current liabilities are identifiable in the classified statement of financial position.

NOTE 10 NET ASSETS WITH TEMPORARY DONOR RESTRICTIONS

Net assets with temporary donor restrictions are available to be used within a specific time and/or specific purpose restrictions and consist of the following at December 31, 2019:

Project restricted	\$ <u>2,860,270</u>
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SCLERODERMA RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the eight month period ended December 31, 2019

NOTE 11 CONCENTRATION OF CREDIT RISK

As of December 31, 2019 the Corporation had cash balances with financial institutions which exceeded the \$250,000 Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insured limits by approximately \$2,199,000.

NOTE 12 CORONA VIRUS AND SUBSEQUENT EVENTS

Subsequent to year-end, the United States and global markets experienced significant volatility resulting from uncertainty caused by the world-wide coronavirus pandemic. The Corporation is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these price movements. The Corporation's financial statements do not include adjustments to fair value that may have resulted from these changes.

Management has evaluated all subsequent events through the Auditor's Report date, the date the financial statements were available to be issued.