

The Myositis Association

Financial Report
December 31, 2017

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Independent Auditor's Report

To the Board of Directors
The Myositis Association

Report on the Financial Statements

We have audited the accompanying financial statements of The Myositis Association (TMA), which comprise the balance sheet as of December 31, 2017, 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.

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 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 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 TMA as of December 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited TMA's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
August 8, 2018

The Myositis Association

Balance Sheet

December 31, 2017

(With Comparative Totals for 2016)

	2017	2016
Assets		
Cash and cash equivalents	\$ 103,849	\$ 314,451
Investments	2,336,125	2,105,522
Promises to give, net	226,472	159,385
Prepaid expenses and other	16,976	10,145
Property and equipment, net	12,824	2,028
Security deposit	11,544	15,544
	<u>\$ 2,707,790</u>	<u>\$ 2,607,075</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 18,011	\$ 4,310
Refundable advance	38,928	55,194
Total liabilities	<u>56,939</u>	<u>59,504</u>
Commitments (Note 7)		
Net assets:		
Unrestricted:		
Undesignated	1,836,885	1,524,658
Board designated	540,000	540,000
	<u>2,376,885</u>	<u>2,064,658</u>
Temporarily restricted	250,966	459,913
Permanently restricted	23,000	23,000
Total net assets	<u>2,650,851</u>	<u>2,547,571</u>
	<u>\$ 2,707,790</u>	<u>\$ 2,607,075</u>

See notes to financial statements.

The Myositis Association

**Statement of Activities
Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions and nonfederal grants	\$ 679,521	\$ 510,150	\$ -	\$ 1,189,671	\$ 1,089,411
Investment income	227,423	-	-	227,423	132,306
Special events	172,212	-	-	172,212	106,082
Federal grant – Department of Defense	16,266	-	-	16,266	101,487
Annual conference	120,666	-	-	120,666	65,220
Sales and sponsorships	156,461	-	-	156,461	42,184
Net assets released from restrictions	719,097	(719,097)	-	-	-
Total support and revenue	2,091,646	(208,947)	-	1,882,699	1,536,690
Expenses:					
Program services	1,413,122	-	-	1,413,122	1,234,751
Supporting services:					
General and administrative	147,872	-	-	147,872	181,161
Fundraising	218,425	-	-	218,425	175,722
Total expenses	1,779,419	-	-	1,779,419	1,591,634
Change in net assets	312,227	(208,947)	-	103,280	(54,944)
Net assets:					
Beginning	2,064,658	459,913	23,000	2,547,571	2,602,515
Ending	\$ 2,376,885	\$ 250,966	\$ 23,000	\$ 2,650,851	\$ 2,547,571

See notes to financial statements.

The Myositis Association

**Statement of Functional Expenses
Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	2017									2016 Total
	Program Services					General and Administrative	Fundraising	Total		
	Communications	Member Services	Grants	Program Overhead	Subtotal					
Expenses:										
Salaries and benefits	\$ 111,544	\$ 142,791	\$ 38,934	\$ 41,416	\$ 334,685	\$ 75,191	\$ 106,228	\$ 516,104	\$ 541,039	
Subcontract labor	-	35,334	560,351	-	595,685	-	-	595,685	481,219	
Conference	-	205,312	7,410	-	212,722	3,211	5,103	221,036	185,345	
Professional fees	9,391	13,557	-	26,585	49,533	28,767	4,721	83,021	93,087	
Supplies	-	23,725	-	4,753	28,478	2,105	56,142	86,725	67,205	
Printing and publications	24,773	41,197	-	-	65,970	6,486	23,831	96,287	55,570	
Rent	-	-	-	48,136	48,136	10,494	15,283	73,913	48,420	
Travel	-	18,331	13,236	-	31,567	2,147	(1,135)	32,579	36,010	
Postage and shipping	14,871	7,943	871	-	23,685	3,274	3,150	30,109	26,435	
Bad debt	-	-	-	-	-	-	-	-	17,612	
Dues and subscriptions	-	3,200	500	8,441	12,141	2,165	2,861	17,167	14,017	
Other	-	700	2,340	371	3,411	12,574	118	16,103	10,767	
Telecommunications	-	422	-	3,829	4,251	835	1,216	6,302	7,172	
Insurance	-	-	-	2,754	2,754	600	874	4,228	5,656	
Depreciation	-	-	-	104	104	23	33	160	2,080	
Total expenses	\$ 160,579	\$ 492,512	\$ 623,642	\$ 136,389	\$ 1,413,122	\$ 147,872	\$ 218,425	\$ 1,779,419	\$ 1,591,634	

See notes to financial statements.

The Myositis Association

Statement of Cash Flows
Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 103,280	\$ (54,944)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized gain on investments, net	(183,391)	(90,417)
Depreciation and amortization	160	2,080
Discount on long term promises to give	5,078	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Promises to give	(72,165)	183,865
Prepaid expenses and other	(6,831)	(3,820)
Security deposit	4,000	(11,544)
Increase (decrease) in:		
Accounts payable and accrued expenses	13,701	(11,784)
Refundable advance	(16,266)	(19,993)
Net cash used in operating activities	(152,434)	(6,557)
Cash flows from investing activities:		
Net purchases and sales of investments	(47,212)	90,704
Purchases of property and equipment	(10,956)	(800)
Net cash (used in) provided by investing activities	(58,168)	89,904
Net (decrease) increase in cash and cash equivalents	(210,602)	83,347
Cash and cash equivalents:		
Beginning	314,451	231,104
Ending	\$ 103,849	\$ 314,451

See notes to financial statements.

The Myositis Association

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Myositis Association (TMA) is a nonprofit corporation that works to improve the lives of those affected by inflammatory myopathies. TMA seeks out persons with inflammatory myopathies, provides a support network, acts as a resource for patients and physicians, acts as an advocate for patients and promotes research into the causes and treatment of the diseases.

A summary of TMA's significant accounting policies follows:

Basis of accounting: The financial statements of TMA have been prepared on the accrual basis of accounting. Accordingly, support is recognized when notification of the unconditional contribution is received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Not-for-Profit Entities Topic of the Codification, TMA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and cash equivalents: For purposes of the statement of cash flows, TMA considers all highly liquid instruments with an original maturity of three months or less, including money market deposit accounts, to be cash equivalents.

Financial risk: TMA maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. TMA has not experienced any losses in such accounts. TMA believes it is not exposed to any significant financial risk on cash.

TMA utilizes a third party custodian, who holds TMA's investment portfolio that contains exchange traded funds. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to current operations.

Promises to give: Unconditional promises to give are recognized as assets and revenue in the period acknowledged. Conditional promises to give are only recognized as revenue when the conditions on which they depend are substantially met.

Unconditional promises to give are initially carried at fair value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible. Management determined the promises to give are fully collectible, and there was no allowance for doubtful promises to give at December 31, 2017.

Property and equipment: Property and equipment are recorded at cost or, if donated, at estimated current value at the time of donation. TMA provides for depreciation of property and equipment using the straight-line method over the estimated useful lives of the assets, ranging from five to seven years. TMA capitalizes all property and equipment with a cost of \$1,000 or more with an estimated useful life of greater than one year.

The Myositis Association

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Support and revenue recognition: Unconditional contributions are recognized when received. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

TMA receives grants from federal agencies and private grantors for various purposes. Revenues from grant awards are recognized when the related expense is incurred. Grant awards not yet received are accrued to the extent allowable unreimbursed expenses have been incurred for the purposes specified by an approved grant. TMA records a refundable advance for amounts received under approved awards from grantors to the extent they exceed expenses incurred for the purposes specified under the grant restrictions.

Special events consist of fundraising events such as golf tournaments, walk-a-thons and bridge tournaments. Revenue is recognized on the date of the events.

Sales revenue consist of merchandise sales. Revenue is recognized when earned.

Annual conference revenues and sponsorships are recognized in the period the conference occurs. Payments received in advance are recorded as deferred revenue.

Donated materials and services: TMA receives contributions of materials and services from businesses toward the fulfillment of program objectives and general operations. Those services, which meet the criteria for recognition, have been included in revenue and expense categories.

Expenses: Direct costs associated with specific programs are recorded as program expenses. General and administrative expenses are unallocated on the statement of activities. Fringe benefits are allocated to specific programs based on salaries.

Board designated net assets: Board designated net assets are amounts designated by the Board of Directors to be used for research of any form of myositis and an operating reserve. At December 31, 2017, the Board designated net asset reserve was \$540,000.

Income taxes: TMA is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, TMA qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. TMA did not have any net unrelated business income for the year ended December 31, 2017. Management has evaluated TMA's tax positions and has concluded that TMA has taken no uncertain tax positions that require disclosure.

Use of estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Myositis Association

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. (Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019.)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. TMA is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. TMA is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. TMA is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with TMA's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Subsequent events: TMA evaluated subsequent events through August 8, 2018, which is the date the financial statements were available to be issued.

The Myositis Association

Notes to Financial Statements

Note 2. Investments

Investments at December 31, 2017, consist of exchange traded funds of \$2,336,125. See Note 10.

Investment income for the year ended December 31, 2017, consists of the following:

Interest and dividends	\$ 44,032
Realized and unrealized gains, net	183,391
	<u>\$ 227,423</u>

Note 3. Promises to Give

Promises to give due in greater than one year are measured using the present value of future cash flows based on a discount rate of approximately 1.74%. Unconditional promises to give at December 31, 2017, consist of the following:

Within one year	\$ 81,550
One to five years	150,000
	<u>231,550</u>
Less present value discount	5,078
	<u>\$ 226,472</u>

Note 4. Property and Equipment

Property and equipment and accumulated depreciation and amortization at December 31, 2017, consist of the following:

Software	\$ 62,899
Website in progress	10,956
Computer equipment	17,495
Furniture	746
	<u>92,096</u>
Less accumulated depreciation and amortization	79,272
	<u>\$ 12,824</u>

Depreciation and amortization expense for the year ended December 31, 2017, was \$160.

The Myositis Association

Notes to Financial Statements

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for specific forms of myositis research except the general funds could be used for any form of myositis research.

Changes in temporarily restricted net assets during the year ended December 31, 2017, are as follows:

	December 31, 2016	Additions	Released	Reclassification	December 31, 2017
Time restricted:					
Promises to give	\$ 159,385	\$ 221,548	\$ 154,461	\$ -	\$ 226,472
Purpose restricted:					
Polymyositis	293,245	1,155	73,775	220,625	-
IBM	5,657	32,726	38,383	-	-
Annual conference scholarships	1,626	37,770	16,579	-	22,817
General	-	112,469	112,469	-	-
Juvenile myositis	-	72,960	72,960	-	-
Dermatomyositis	-	3,615	224,240	(220,625)	-
Other	-	27,907	26,230	-	1,677
	<u>\$ 459,913</u>	<u>\$ 510,150</u>	<u>\$ 719,097</u>	<u>\$ -</u>	<u>\$ 250,966</u>

Note 6. Permanently Restricted Net Assets

Permanently restricted net assets of \$23,000 represent endowment funds, the principal of which is not available for use by TMA. The earnings on these endowment funds were appropriated for expenditure for general operations during the year ended December 31, 2017.

Note 7. Commitments

Employment: TMA has an employment contract with the Executive Director of TMA, which expires December 31, 2018. The contract provides for severance payments equal to a minimum of 12 months' salary if terminated without cause, based upon the employee's salary at the date of the termination.

Hotel contracts: TMA has entered into a contract for hotel rooms relating to an event to be held in September 2018. In the event of cancellation, TMA is required to pay various costs as stipulated in the contract, the amount of which is dependent upon the date of cancellation.

Office space: TMA leases office space and services under an operating lease for two office suites, which expires December 31, 2018. TMA leases a third office suite on a month-to-month basis. Future minimum lease payments for the year ending December 31, 2018, are \$44,220. Rent expense for the year ended December 31, 2017, was \$73,913.

Note 8. Retirement Plan

TMA has a 401(k) Plan (the Plan) allowing employees over 21 years of age to participate following the completion of 1,000 hours of service. TMA will contribute 3% of the employee's salary. TMA contributed \$2,290 to the Plan for the year ended December 31, 2017.

Note 9. Related Party Transactions

During the year ended December 31, 2017, members of TMA's Board of Directors made contributions totaling \$59,515.

The Myositis Association

Notes to Financial Statements

Note 10. Fair Value Measurements

The Fair Value Measurement topic of the Codification requires disclosures of financial position in periods subsequent to initial recognition, whether the measurements are made on a recurring basis or a non-recurring basis, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosure about fair market value measurements. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking quality and reliability of the information used to determine fair value. The provision applies to all assets and liabilities that are being measured and reported on a fair value basis and are disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, TMA performs a detailed analysis of the assets and liabilities that are subject to the Codification. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. TMA had no Level 2 or Level 3 inputs for any assets held at December 31, 2017.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2017:

	Total	Level 1	Level 2	Level 3
Assets:				
Exchange traded funds:				
Large blend	\$ 712,814	\$ 712,814	\$ -	\$ -
Inflation protected bond	321,781	321,781	-	-
Short-term bond	259,839	259,839	-	-
Corporate bond	130,288	130,288	-	-
Foreign large blend	318,715	318,715	-	-
Short government	50,310	50,310	-	-
Ultra-short bond	44,518	44,518	-	-
Small blend	154,442	154,442	-	-
Mid-cap blend	148,813	148,813	-	-
Trading-leveraged equity	139,195	139,195	-	-
High yield bond	55,410	55,410	-	-
	<u>\$ 2,336,125</u>	<u>\$ 2,336,125</u>	<u>\$ -</u>	<u>\$ -</u>

The exchange traded funds of TMA are classified as Level 1 instruments as there are quoted market prices in active markets for identical assets.