

Pachyonychia Congenita Fund

Financial Statements and Independent Auditor's Report

For the Year Ended December 31, 2015

Pachyonychia Congenita Fund

Table of Contents

| | |
|--|---|
| Independent Auditor’s Report | 3 |
| Statement of Financial Position | 4 |
| Statement of Activities..... | 5 |
| Statement of Functional Expenses | 6 |
| Statement of Cash Flows | 7 |
| Notes to Financial Statements..... | 8 |

Independent Auditor's Report

The Board of Directors
Pachyonychia Congenita Fund

We have audited the accompanying financial statements of Pachyonychia Congenita Fund (a Non-Profit Organization) which comprise the statement of financial position as of December 31, 2015, 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.

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 Pachyonychia Congenita Fund as of December 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Mantyla McReynolds, LLC
Salt Lake City, Utah
March 18, 2016

Pachyonychia Congenita Fund
Statement of Financial Position
December 31, 2015

ASSETS

Current assets:

| | |
|--------------------------------|------------------|
| Cash and cash equivalents | \$ 244,223 |
| Investments | 783,608 |
| Unconditional promises to give | 25,485 |
| Total current assets | <u>1,053,316</u> |

| | |
|-----------------------------|---------------------|
| Property and equipment, net | 2,535 |
| Total assets | <u>\$ 1,055,851</u> |

LIABILITIES AND NET ASSETS

Current liabilities

| | |
|---------------------------|--------------|
| Accounts payable | \$ 4,268 |
| Total current liabilities | <u>4,268</u> |

Net assets

| | |
|----------------------------------|---------------------|
| Unrestricted net assets | 1,051,583 |
| Total net assets | <u>1,051,583</u> |
| Total liabilities and net assets | <u>\$ 1,055,851</u> |

See accompanying notes to the financial statements

Pachyonychia Congenita Fund
Statement of Activities
For the Year Ended December 31, 2015

| | Unrestricted |
|---|--------------|
| Revenues and Public Support | |
| Contributions | \$ 333,150 |
| Donated services | 368,770 |
| Special event revenue, less direct costs (\$16,582) | 7,208 |
| Interest | 458 |
| Investment loss | (11,523) |
| Total revenues and public support | 698,063 |
| Expenses | |
| Program services | 625,017 |
| Supportive services | 67,542 |
| Fundraising services | 36,278 |
| Total expenses | 728,837 |
| Change in net assets | (30,774) |
| Net assets as of beginning of year | 1,082,357 |
| Net assets as of end of year | \$ 1,051,583 |

See accompanying notes to the financial statements

Pachyonychia Congenita Fund
Statement of Functional Expenses
For the Year Ended December 31, 2015

| | Program Services | Support Services | Fundraising Services | Total |
|--------------------------|---------------------|---------------------|-------------------------|-------------------|
| Bank and other fees | \$ - | \$ 5,546 | \$ 684 | \$ 6,229 |
| Clinical trials | 38,209 | - | - | 38,209 |
| Depreciation | - | 2,406 | - | 2,406 |
| Dues and fees | 4,389 | 259 | 8,054 | 12,702 |
| Meals and gifts | 10,213 | 1,084 | 253 | 11,550 |
| Printing and publication | 1,656 | 268 | 208 | 2,132 |
| Professional services | 278,214 | 16,425 | 10,540 | 305,179 |
| Other expenses | 2,929 | 1,448 | 164 | 4,540 |
| Rent and facility | 2,943 | 1,500 | 500 | 4,943 |
| Salaries and wages | 188,650 | 37,441 | 14,627 | 240,719 |
| Shipping and postage | 4,978 | 270 | - | 5,248 |
| Travel and lodging | 87,998 | 896 | 1,248 | 90,142 |
| Website & database | 4,838 | - | - | 4,838 |
| | <u>4,838</u> | <u>-</u> | <u>-</u> | <u>4,838</u> |
| Total expenses | <u>\$ 625,017</u> | <u>\$ 67,542</u> | <u>\$ 36,278</u> | <u>\$ 728,837</u> |

See accompanying notes to the financial statements

Pachyonychia Congenita Fund
Statement of Cash Flows
For the Year Ended December 31, 2015

| | |
|--|-------------------|
| Operating activities | |
| Change in net assets | \$ (30,774) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | |
| Depreciation expense | 2,406 |
| Unrealized loss on investments | 16,591 |
| Changes in operating assets and liabilities: | |
| Increase in unconditional promises to give | (16,335) |
| Decrease in accounts payable | (3,904) |
| Net cash from operating activities | <u>(32,016)</u> |
| Investing activities | |
| Dividends received, net | 13,939 |
| Purchase of investments | (27,213) |
| Proceeds from sale of investments | 13,274 |
| Net cash from investing activities | <u>-</u> |
| Net decrease in cash and cash equivalents | (32,016) |
| Cash and cash equivalents as of beginning of year | <u>276,239</u> |
| Cash and cash equivalents as of end of year | <u>\$ 244,223</u> |
| Supplemental disclosure of cash flow information: | |
| Cash paid for interest | \$ - |
| Cash paid for income taxes | \$ - |

See accompanying notes to the financial statements

Pachyonychia Congenita Fund
Notes to Financial Statements
For the Year Ended December 31, 2015

Note 1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Pachyonychia Congenita Fund (“The Organization”) is a patient support organization trying to find a cure for the Pachyonychia Congenita disease through research and drug development. The Organization provides a patient registry and is working with researchers to develop and deliver therapeutics to persons afflicted with this disease. The Organization is supported by donations from individuals and businesses, as well as grants received from governmental and private organizations. Approximately 47% of the Organization’s support for the year ended December 31, 2015 came from contributions from the Founder, a portion of which represents donated services.

Contributions & Revenue

Gifts of cash and other assets, including unconditional promises to give cash and other assets, are reported at fair value at the date the assets or promise are received.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. Annual contributions are generally available for unrestricted use in the related year unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Significant unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectable promises is provided based on management’s evaluation of potential uncollectable promises receivable at year end.

Other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

The Organization records the value of contributed goods when there is an objective basis available to measure their value and is reflected as revenue at their estimated values at the date of receipt. There were no contributed goods during the year ended December 31, 2015.

In-Kind Contributed Services

During the year ended December 31, 2015, the Organization received contributed services worth an estimated \$368,770. The Organization has recognized the full amount for revenues as well as program, support and fundraising services as of December 31, 2015. This amount is comprised of \$120,000 in donated time and service by the Founder, \$232,570 in services rendered by physicians, \$10,000 in services of fundraising professionals and \$6,200 in services donated by accounting professionals.

Pachyonychia Congenita Fund
Notes to Financial Statements
For the Year Ended December 31, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

A substantial number of volunteers donated significant amounts of their time to assist in the Organization's program services. This time was not recognized as revenue as it did not relate to specialized skills. The fair value of the unrecognized contributed services cannot practicably be calculated.

Financial Statement Presentation

The financial statements are prepared on the accrual basis of accounting and follows accounting principles generally accepted in the United States of America ("U.S. GAAP") for nonprofit organizations. The Organization 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. The Organization does not use fund accounting.

As of December 31, 2015, the Organization had no temporarily restricted assets and no permanently restricted assets.

Use of Estimates

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

Cash, Cash Equivalents and Short-term Investments

The Company considers highly liquid investments with insignificant interest rate risk and original maturities to the Company of three months or less to be cash equivalents. Cash equivalents consist primarily of interest-bearing bank accounts and money market funds.

The Organization maintains its cash and cash equivalents in financial institution accounts, which may, at times, exceed the federally insured limit. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash held in such institutions.

The Company considers highly liquid investments with an effective maturity to the Company of more than three months and less than one year to be short-term investments. The Company evaluates short-term investments in marketable securities in accordance with ASC Topic 320, "Investments - Debt and Equity Securities", and has determined that the investments held as of December 31, 2015 should be recorded as trading securities.

Management determines the appropriate classification of investments at the time of purchase and re-evaluates such designation at the end of each financial reporting period. Trading and available-for-sale securities are reflected at fair market value.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Organization's Form 990, Return of Organization Exempt from Income Tax, for the years ending 2013, 2014, and 2015 are subject to examination by the IRS, generally for three years after they were filed.

Pachyonychia Congenita Fund
Notes to Financial Statements
For the Year Ended December 31, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated over their estimated useful lives ranging from five to seven years using the declining balance method.

Note 2. Investments

The following schedule summarizes the investment return and its classification in the statement of activities as of December 31, 2015:

| | |
|---|-------------------|
| Investment value at December 31, 2014 | \$ 800,199 |
| Dividends (net of expenses of \$5,067) | 13,939 |
| Net realized gain on sales of investments | 13,275 |
| Net unrealized loss on investment | <u>(43,805)</u> |
| Investment value at December 31, 2015 | <u>\$ 783,608</u> |

The gains and losses are recognized on the Statement of Activities. See Note 5 for a discussion of fair value measurements.

Note 3. Property and Equipment

The major categories of property and equipment as of December 31, 2015 are as follows:

| | |
|--------------------------|-----------------|
| Equipment | \$ 29,754 |
| Accumulated depreciation | <u>(27,219)</u> |
| Net | <u>\$ 2,535</u> |

Depreciation expense for the year ended December 31, 2015 was \$2,406.

Note 4. Promises to Give

Unconditional promises to give due in more than one year are recognized at fair value when the donor makes an unconditional promise to give to the Organization. As of December 31, 2015, the amount of unconditional promises to give was \$25,485.

Pachyonychia Congenita Fund
Notes to Financial Statements
For the Year Ended December 31, 2015

Note 5. Fair Value Measurements

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash, Cash Equivalents and Short-term Unconditional Promises to Give

The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Investments

The fair values of publicly-traded marketable securities are based on quoted prices in active markets for identical assets.

FASB ASC 820-10-55 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under FASB ASC 820-10-55 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under FASB ASC 820-10-55 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following schedule summarizes the valuation of financial instruments measured at fair value on a recurring basis as of December 31, 2015.

| Description | Total Fair Value at | | | Fair Value Measurement Using: | | |
|---------------------------------------|---------------------|------------|---------|-------------------------------|--|--|
| | December 31, 2015 | Level 1 | Level 2 | Level 3 | | |
| Publicly-traded marketable Securities | \$ 783,608 | \$ 783,608 | | | | |

Note 6. Related Party Transactions

The Founder has contributed \$51,000 to the Organization as an unrestricted contribution for the year ended December 31, 2015. The Founder owns a building and provides space and utilities for the Organization on a charge free basis. As such, \$6,000 rent expense has been recognized for the year ended December 31, 2015.

Pachyonychia Congenita Fund
Notes to Financial Statements
For the Year Ended December 31, 2015

Note 7. Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 8. Subsequent Events

The Organization has evaluated subsequent events through March 18, 2016, the date the financial statements were available to be issued, and has concluded that no recognized or nonrecognized subsequent events have occurred since the year ended December 31, 2015.