

GLOBAL GENES
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

WITH INDEPENDENT AUDITORS' REPORT

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DECEMBER 31, 2017**

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Global Genes
Aliso Viejo, California

We have audited the accompanying financial statements of Global Genes (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of December 31, 2017, 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 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 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 auditors consider internal control relevant to the Organization'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 Organization'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 Global Genes 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.

White Nelson Dick Evans LLP

Irvine, California
August 13, 2018

GLOBAL GENES
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 987,903
Other receivables	22,119
Inventories	11,861
Prepaid expenses and other current assets	<u>144,017</u>
Total Current Assets	1,165,900
Property and Equipment, at Net Book Value	13,241
Other Assets:	
Deposits	<u>9,987</u>
Total Assets	<u><u>\$ 1,189,128</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	\$ 107,526
Accrued liabilities	<u>120,170</u>
Total Current Liabilities	<u>227,696</u>
Total Liabilities	227,696
Net Assets:	
Unrestricted net assets	680,932
Temporarily restricted	<u>280,500</u>
Total Net Assets	<u>961,432</u>
Total Liabilities and Net Assets	<u><u>\$ 1,189,128</u></u>

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

GLOBAL GENES
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

Unrestricted Support and Revenue:	
Contributions and Net Revenues from Special Events:	
Contributions	\$ 3,178,374
In-kind contributions	26,589
Special events	\$ 531,086
Less: Direct special event expenses	<u>(293,927)</u>
Interest income	<u>346</u>
 Total Contributions and Net Revenues from Special Events	 3,442,468
 Net Assets Released from Restrictions	 <u>504,856</u>
 Total Unrestricted Support and Revenue	 3,947,324
 Expenses (See Statement of Functional Expenses)	 <u>3,989,354</u>
 Decrease in Unrestricted Net Assets	 <u>(42,030)</u>
Temporarily Restricted Support:	
Contributions	340,911
 Temporarily Restricted Assets Released from Restrictions	 <u>(504,856)</u>
 Decrease in Temporarily Restricted Net Assets	 <u>(163,945)</u>
 Decrease in Total Net Assets	 (205,975)
 Total Net Assets, December 31, 2016, as Restated (Note 9)	 <u>1,167,407</u>
 Total Net Assets, December 31, 2017	 <u><u>\$ 961,432</u></u>

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

GLOBAL GENES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services			Total Functional Expenses
		General and Administrative	Fundraising	Total	
Accounting	\$ -	\$ 53,932	\$ -	\$ 53,932	\$ 53,932
Advertising and fundraising	77,308	2,420	1,888	4,308	81,616
Advocacy	6,000	-	-	-	6,000
Bank charges	-	1,031	-	1,031	1,031
Business registration fees	-	-	7,360	7,360	7,360
Computer and software	55,709	15,631	464	16,095	71,804
Conference and convention	615,513	7,463	-	7,463	622,976
Donations	10,899	-	-	-	10,899
Dues and subscriptions	5,771	225	4,690	4,915	10,686
Fees	13,361	60,403	-	60,403	73,764
Funded travel for patients	420,624	-	-	-	420,624
Grant program	98,836	-	-	-	98,836
Insurance	-	11,669	-	11,669	11,669
Legal	5,213	1,985	3,500	5,485	10,698
Meals and entertainment	48,505	13,735	2,734	16,469	64,974
Other professional services	75,250	5,400	17,000	22,400	97,650
Outside services	155,837	14,303	-	14,303	170,140
Patient services	178,191	3,900	-	3,900	182,091
Payroll taxes	75,163	14,220	12,188	26,408	101,571
Postage and shipping	10,497	3,361	593	3,954	14,451
Printing and reproduction	50,659	1,751	826	2,577	53,236
Promotional products	32,546	-	-	-	32,546
Rent	83,766	17,595	12,784	30,379	114,145
Repairs and maintenance	-	10,238	-	10,238	10,238
Salaries and wages	897,727	245,026	183,764	428,790	1,326,517
Scholarship program	51,718	-	-	-	51,718
Supplies	31,199	27,359	256	27,615	58,814
Travel	130,304	16,225	11,222	27,447	157,751
Utilities	17,047	3,969	3,117	7,086	24,133
Undiagnosed patient program	11,169	-	-	-	11,169
Workers' compensation	7,422	1,404	1,204	2,608	10,030
Total Expenses before Depreciation	3,166,234	533,245	263,590	796,835	3,963,069
Depreciation of Property and Equipment	19,451	3,680	3,154	6,834	26,285
Total Functional Expenses	\$ 3,185,685	\$ 536,925	\$ 266,744	\$ 803,669	\$ 3,989,354

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

GLOBAL GENES
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

Cash Flows from Operating Activities:	
Decrease in Total Net Assets	\$ (205,975)
Noncash Item Included in Net Assets:	
Depreciation	26,285
Changes in:	
Other receivables	12,881
Inventories	5,684
Prepaid expenses and other current assets	51,956
Accounts payable	9,580
Accrued liabilities	66,358
Short-term payable	<u>(7,258)</u>
Net Cash and Cash Equivalents Used in Operating Activities	(40,489)
Cash and Cash Equivalents, Beginning of Year	<u>1,028,392</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 987,903</u></u>

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

GLOBAL GENES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Global Genes (the “Organization”) was incorporated as a nonprofit organization under the laws of the State of California in 2009. The Organization’s mission is to unify a global rare and genetic disease community by providing connections and resources to ease the burdens of affected families. The Organization emphasizes on increasing rare disease awareness, offering public and physician education, building community through social media, and funding research to find treatments and cures.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). References to the “ASC” hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (“FASB”) as the source of authoritative US GAAP.

In accordance with FASB ASC 958-205, *Presentation of Financial Statements*, the Organization’s resources are classified for accounting and reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. Accordingly, the net assets of the Organization are classified and reported as follows:

- *Unrestricted Net Assets* - Unrestricted net assets are net assets that are not subject to donor-imposed stipulations and interest on investments.
- *Temporarily Restricted Net Assets* - Temporarily restricted net assets are net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. The Organization has \$280,500 in temporarily restricted assets as of December 31, 2017.
- *Permanently Restricted Net Assets* - Permanently restricted net assets are net assets subject to donor-imposed stipulations that may be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets. The Organization has no permanently restricted assets as of December 31, 2017.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include checking accounts used for operating purposes and investments with maturities of three months or less from the original purchase dates.

GLOBAL GENES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Donated Materials and Services

Contributions of donated noncash assets are measured on nonrecurring basis and recorded at fair value 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 otherwise be purchased by the Organization are recorded at fair value in the period received. For the year ended December 31, 2017, the Organization received a total of \$26,589 in donated goods and services, which is recorded as in-kind contributions in the statement of activities and included as part of patient resources specialist and computer and software expense in the statement of functional expenses.

Many volunteers provide services throughout the year that are not recognized as contributions in the financial statements because the recognition criteria under FASB ASC 958-605 were not met and have not been reflected in the accompanying financial statements.

Inventories

Inventories are recorded at cost and are determined by the first-in, first-out method. Inventories are made up primarily of clothing and other promotional items that the Organization sells on its website.

Contributions and Net Revenues from Special Events

The Organization relies on contributions from individuals, corporations, and other miscellaneous organizations. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Property and Equipment

Property and equipment are stated at cost if purchased or estimated fair value if donated. Maintenance and repairs are expensed as incurred. Depreciation is computed on the straight-line basis over the estimated useful lives of three to seven years. Leasehold improvements are capitalized at cost and are amortized over the shorter of the lease term or the estimated useful life of the related asset.

GLOBAL GENES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Long-Lived Assets and Asset Impairment

The Organization accounts for long-lived assets in accordance with FASB ASC 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. There was no impairment of the value of such assets for the year ended December 31, 2017.

Functional Allocation of Expenses

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

Advertising and Fundraising Costs

Advertising and fundraising costs are charged to operations when incurred. For the year ended December 31, 2017, advertising and fundraising costs totaled \$81,616 and are allocated accordingly in the statement of functional expenses.

Use of Estimates

The process of preparing financial statements in accordance with US GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

GLOBAL GENES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. ASU 2016-14 changes 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. The ASU requires an amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-14 on the presentation of its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*. ASU 2016-18 requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. The amendments in ASU 2016-18 do not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-18 on the presentation of its financial statements.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and corresponding state code as a charitable organization whereby only unrelated business income, as identified by Section 509(a)(1) of the Code, is subject to income tax. The Organization had no unrelated business income during the year ended December 31, 2017. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Organization adheres to the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). In accordance with FASB ASC 740-10, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions, and accordingly, it has not recognized any liability for unrecognized tax benefits or any related interest or penalties. Years prior to 2015 are no longer subject to US federal income tax examination, and the Organization is no longer subject to state income tax examinations for years before 2014.

GLOBAL GENES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 2: Concentrations, Risks, and Uncertainties

The Organization maintains cash and cash equivalents at two financial institutions. At December 31, 2017, accounts at these institutions are insured by the Federal Deposit Insurance Corporation for up to \$250,000. At December 31, 2017, the Organization had approximately \$541,000 of cash and cash equivalents in excess of federally insured limits.

The Organization received a substantial portion of contributions from one source. During the year ended December 31, 2017, contributions from this one source accounted for approximately 10 percent of total contributions. At December 31, 2017, no amounts were due from this source in receivables.

Note 3: Property and Equipment

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

Leasehold improvements	\$ 10,314
Furniture and fixtures	20,863
Computer software	<u>63,766</u>
Total property and equipment, at cost	94,943
Less: Accumulated depreciation	<u>(81,702)</u>
Property and Equipment, at Net Book Value	<u>\$ 13,241</u>

Depreciation expense for the year ended December 31, 2017, totaled \$26,285.

Note 4: Net Assets Released from Restrictions

The following net assets were released from restrictions for the year ended December 31, 2017:

Satisfaction of Program or Timing Restrictions:	
Undiagnosed patient program	\$ 11,169
2017 Corporate alliance and events	381,500
Grant program	62,187
Scholarship program	<u>50,000</u>
Total Net Assets Released from Restrictions	<u>\$ 504,856</u>

GLOBAL GENES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 5: Net Assets

The following are unrestricted net assets and temporarily restricted net assets for the year ended December 31, 2017:

Unrestricted Net Assets:	
Property and equipment, at net book value	\$ 13,241
Undesignated - available for programs	<u>667,691</u>
 Total Unrestricted Net Assets	 <u>\$ 680,932</u>
 Temporarily Restricted Net Assets:	
2018 Corporate alliance and events	<u>\$ 280,500</u>

Note 6: Related-Party Transactions

During the year ended December 31, 2017, the Organization paid approximately \$5,300 in legal fees to the law firm O-Connor, Schmeltzer & O'Connor where the spouse of a senior manager is a partner. The Organization also paid \$12,000 in website development for patient resources to WTP where the spouse of an officer is the owner. There were no other related-party transactions during 2017.

Note 7: Commitments and Contingencies

Operating Lease

The Organization leases office space under a noncancelable operating lease expiring in November 2021. Minimum future rental payments under this noncancelable operating lease having remaining terms in excess of one year as of December 31, 2017, are as follows:

2018	\$ 111,782
2019	115,188
2020	118,268
2021	<u>103,951</u>
 Total	 <u>\$ 449,189</u>

Rental expense for the year ended December 31, 2017, totaled \$114,145.

GLOBAL GENES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 8: Employee Benefit Plan

The Organization sponsors a qualified 401(k) plan (the “Plan”). Employees of the Organization are eligible upon meeting the age requirement of 21 years and completing three consecutive months of employment. In accordance with the terms of the Plan, employees may contribute earnings pretax to the Plan, up to the annual maximum as prescribed by law. The Organization has elected not to make an employer contribution to the Plan for the year ended December 31, 2017.

Note 9: Restatement of Prior-Year Financial Statements

The following is a restatement of net assets:

Net assets at January 1, 2017, as originally reported	\$ 1,052,428
Contributions for prior year that was not recorded	35,000
Expenses that should have been recorded as prepaid expenses	<u>79,979</u>
Net Assets at January 1, 2017, as Restated	<u>\$ 1,167,407</u>

Note 10: Subsequent Events

Events occurring after December 31, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of August 13, 2018, which is the date the financial statements were available to be issued.