



OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017
(With Summarized Comparative Totals For the Year Ended December 31, 2016)
with

INDEPENDENT AUDITORS' REPORT THEREON



OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

INDEX

| | <u>Page</u> |
|----------------------------------|--------------------|
| Independent Auditors' Report | 1 - 2 |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Functional Expenses | 5 |
| Statement of Cash Flows | 6 |
| Notes to Financial Statements | 7 - 11 |

Independent Auditors' Report

To the Board of Directors
Open Medicine Foundation

We have audited the accompanying financial statements of Open Medicine Foundation (the "Organization," a non-profit corporation), 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 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 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 the Organization 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 the Organization's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 20, 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.

PDM,LLP

Torrance, California
March 26, 2018

OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2016)

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 3,061,297 | \$ 1,689,153 |
| Contributions receivable | 56,664 | 18,165 |
| Prepaid expense | 1,244 | - |
| | <u>\$ 3,119,205</u> | <u>\$ 1,707,318</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 19,891 | \$ 20,230 |
| Grants payable | 1,224,758 | 323,130 |
| | <u>1,244,649</u> | <u>343,360</u> |
| NET ASSETS | | |
| Unrestricted | | |
| General unrestricted | 1,820,449 | 1,018,253 |
| Board designated | - | 299,130 |
| | <u>1,820,449</u> | <u>1,317,383</u> |
| Temporarily restricted | 54,107 | 46,575 |
| | <u>1,874,556</u> | <u>1,363,958</u> |
| | <u>\$ 3,119,205</u> | <u>\$ 1,707,318</u> |

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

OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2016)

| | 2017 | | | 2016 |
|---------------------------------------|---------------------|---------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Summarized Total |
| REVENUE AND SUPPORT | | | | |
| Contributions | \$ 1,254,134 | \$ 261,291 | \$ 1,515,425 | \$ 1,567,284 |
| Grants | 717,496 | 423,117 | 1,140,613 | 60,000 |
| Interest income | 1,069 | - | 1,069 | 459 |
| Net assets released from restrictions | 676,876 | (676,876) | - | - |
| | <u>2,649,575</u> | <u>7,532</u> | <u>2,657,107</u> | <u>1,627,743</u> |
| FUNCTIONAL EXPENSES | | | | |
| Program services | 1,902,078 | - | 1,902,078 | 879,930 |
| Supporting services | 116,751 | - | 116,751 | 97,791 |
| Fundraising | 127,680 | - | 127,680 | 76,005 |
| | <u>2,146,509</u> | <u>-</u> | <u>2,146,509</u> | <u>1,053,726</u> |
| CHANGE IN NET ASSETS | 503,066 | 7,532 | 510,598 | 574,017 |
| NET ASSETS, beginning of year | <u>1,317,383</u> | <u>46,575</u> | <u>1,363,958</u> | <u>789,941</u> |
| NET ASSETS, end of year | <u>\$ 1,820,449</u> | <u>\$ 54,107</u> | <u>\$ 1,874,556</u> | <u>\$ 1,363,958</u> |

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

OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2016)

| | <u>2017</u> | | | <u>2016</u> | |
|---------------------------|-----------------------------|--------------------------------|--------------------|---------------------|-----------------------------|
| | <u>Program Services</u> | <u>Supporting Services</u> | <u>Fundraising</u> | <u>Total</u> | <u>Summarized Total</u> |
| Salaries and wages | \$ 163,046 | \$ 76,421 | \$ 94,020 | \$ 333,487 | \$ 225,333 |
| Payroll taxes | 11,498 | 5,389 | 6,630 | 23,517 | 15,597 |
| Employee benefits | 1,059 | 735 | 373 | 2,167 | - |
| Total personnel expenses | 175,603 | 82,545 | 101,023 | 359,171 | 240,930 |
| Administrative | - | 11,156 | 2,603 | 13,759 | 4,124 |
| Conferences and education | 59,611 | - | - | 59,611 | 3,183 |
| Fundraising | - | - | 2,261 | 2,261 | 2,346 |
| Grant research | 1,578,473 | - | - | 1,578,473 | 630,599 |
| Information technology | 7,216 | 915 | 2,033 | 10,164 | 8,813 |
| Insurance | - | 2,257 | - | 2,257 | 2,056 |
| Meals and entertainment | 3,003 | - | - | 3,003 | 1,155 |
| Merchant fees | - | - | 14,706 | 14,706 | 6,694 |
| Professional services | 36,605 | 18,427 | 2,970 | 58,002 | 101,641 |
| Promotion and advertising | 3,183 | 101 | 2,084 | 5,368 | 9,513 |
| Taxes | - | 150 | - | 150 | 160 |
| Travel and meetings | 34,205 | 1,200 | - | 35,405 | 37,341 |
| Website | 4,179 | - | - | 4,179 | 5,171 |
| | <u>\$1,902,078</u> | <u>\$ 116,751</u> | <u>\$ 127,680</u> | <u>\$ 2,146,509</u> | <u>\$1,053,726</u> |

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

OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR DECEMBER 31, 2016)

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 510,598 | \$ 574,017 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | (38,499) | (7,097) |
| Prepaid expense | (1,244) | - |
| Accounts payable and accrued expenses | (339) | 4,664 |
| Grants payable | 901,628 | (299,370) |
| Net cash flows from operating activities | <u>1,372,144</u> | <u>272,214</u> |
| Net change cash and cash equivalents | 1,372,144 | 272,214 |
| Cash and cash equivalents, beginning of year | <u>1,689,153</u> | <u>1,416,939</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,061,297</u> | <u>\$ 1,689,153</u> |

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

OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - ORGANIZATION

Open Medicine Foundation (the “Organization,” a non-profit corporation) was founded in 2012 to support collaborative medical research to find effective treatments and diagnostic markers for chronic complex diseases. Through these collaborative medical research efforts, they strive to find effective treatments for those suffering from difficult-to-treat illnesses, by bringing together a community of “thought leaders,” patients, clinicians and researchers for targeted initiatives. Open Medicine Foundation is currently focused on researching myalgic encephalomyelitis/chronic fatigue syndrome (“ME/CFS”) in hopes of discovering diagnostic markers and to bring answers to other chronic complex diseases that share similar symptoms.

Funding - The Organization receives funding primarily through contribution from individuals, foundations, and corporations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Organization’s activities and operations at the discretion of the Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Organization, and/or the passage of time. The Organization had \$54,107 of temporarily restricted net assets as of December 31, 2017.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the income or gains earned on related investments for general (unrestricted) or specific (temporarily restricted) purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Contributions - Contributions are recognized at a fair value when the donor makes an unconditional promise to give to the Organization. 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 unrestricted net assets.

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of services are recognized in the financial statements (as in-kind revenue and a corresponding in-kind expense) if the services enhance or create non-financial assets or require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. During the year ended December 31, 2017, several volunteers who perform services for the Organization have contributed significant amounts of time to the Organization. A dollar valuation of their efforts is not reflected in the financial statements since it does not meet the criteria for recognition.

In addition, the President/CEO and Director of Communications & Development of the Organization contribute office spaces to the Organization. As the value of the contributed rent could not be estimated, no amount for the contributed rent was recorded on the accompanying financial statements.

Cash and cash equivalents - For the purpose of reporting cash flows, cash and cash equivalents include operating cash held in banks. The Organization maintains its cash balances in a financial institution, the balances of which may, at times, exceed federally insured limits.

Contributions receivable - Contributions receivable represent contributions to the Organization by private donors that are collectible after the year-end. It is the policy of management to review outstanding contributions receivables at year end, as well as any historical bad debt write-offs, to establish an allowance for uncollectable amounts. Collection losses related to contributions receivable have historically been minimal. As such, no allowance for uncollectible accounts was recorded.

OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Grants payable - Grants payable as of December 31, 2017, were funds committed by the Organization to other entities for an advancement of research and to increase an awareness of ME/CFS.

Unrestricted board designated accounts - Unrestricted board designated accounts represent unrestricted funds designated by the Organization for specified medical research. The funds are not donor restricted as of December 31, 2017, but are designated for the following purpose:

| | <u>January 1,</u> <u>2017</u> | <u>Designated</u> | <u>Expended</u> | <u>December 31,</u> <u>2017</u> |
|--|----------------------------------|-------------------|---------------------|------------------------------------|
| Board Designated Accounts | | | | |
| Severely Ill Patients Big Data | \$ 99,130 | \$ - | (99,130) | \$ - |
| Research/Computational Analysis Platform | 200,000 | - | (200,000) | - |
| | <u>\$ 299,130</u> | <u>\$ -</u> | <u>\$ (299,130)</u> | <u>\$ -</u> |

Grant research - Grant research represents funds granted to clinical and academic research facilities for direct research of Chronic Complex Illnesses Study.

Expense allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. During the year, costs are categorized into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support activities by the method that best measures the relative degree of benefit.

Program services - Expenses include costs that primarily relate to research projects.

Supporting services - Expenses include costs that primarily relate to management and general administration

Fundraising - Expenses include costs that primarily relate to fundraising activities to obtain grants and generate revenue through contributions.

OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income taxes - The Organization is a qualified non-profit organization under Section 501(c) (3) of the Internal Revenue Code (“IRC”) and is not classified as a private foundation. Non-profit organizations are no generally liable for taxes on income; therefore, no provision is made for such taxes for the Organization in the financial statements. The Organization had no unrelated business income during the years ended December 31, 2017.

The Organization recognizes the impact of tax positions in the financial statements if that position is more likely than not of being sustained in an audit, based on the technical merits of the position. To date, the Organization has not recorded any uncertain tax positions. The Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions during the years ended December 31, 2017.

As of December 31, 2017, all federal and state tax returns since the 2014 tax year are still subject to adjustment upon audit. No tax returns are currently being examined by taxing authorities.

Risks and uncertainties - Certain services of the Organization are governed by grants agreements with foundations. Failure to fulfill grant terms could result in the return of funds to grantors. Although it is a possibility, the Organization considers the contingency remote since, by accepting the grant and its terms, the Organization acknowledges the requirements of the grantor at the time of award.

Comparative totals - The financial statements include certain prior year summarized comparative information in total, but not by net asset class. In addition, the notes to the financial statements do not contain the financial information on a comparative basis. Such summarized 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 the Organization’s financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Subsequent events - Subsequent events have been evaluated by the Organization through March 26, 2018, which is the date these financial statements were issued, and no subsequent events have arisen, other than those described in the Note 5 of the financial statements, that would require disclosure.

OPEN MEDICINE FOUNDATION
(A NON-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 consist of the following:

| | <u>January 1,</u> <u>2017</u> | <u>Additions</u> | <u>Releases</u> | <u>December 31,</u> <u>2017</u> |
|---|----------------------------------|-------------------|---------------------|------------------------------------|
| Temporarily Restricted | | | | |
| Metabolomics Testing | \$ 2,575 | \$ 5,960 | \$ (8,535) | \$ - |
| Physician Education for ME/CFS | 44,000 | - | (44,000) | - |
| Swedish ME Research Project | - | 51,950 | (51,950) | - |
| Blue Ribbon Foundation Internship Program | - | 3,167 | (3,167) | - |
| Medical Research and Science Meeting | - | 100,000 | (100,000) | - |
| Research for ME/CFS | - | 273,471 | (273,471) | - |
| Clinical Symposium | - | 55,000 | (1,243) | 53,757 |
| ME Conference in London | - | 500 | (500) | - |
| Suramin Pilot Study | - | 350 | - | 350 |
| Immunology Research - Stanford | - | 3,100 | (3,100) | - |
| FM Test Study for ME/CFS | - | 40,910 | (40,910) | - |
| Bioinformatics | - | 150,000 | (150,000) | - |
| | <u>\$ 46,575</u> | <u>\$ 684,408</u> | <u>\$ (676,876)</u> | <u>\$ 54,107</u> |

NOTE 4 - RELATED PARTY TRANSACTIONS

The Organization has a contract with a firm to provide business strategy, operations, and development in order to fill a gap in critical personnel needs of the Organization. The contracted firm's officer is also a board member of the Organization. During 2017, professional services expense paid to the firm totaled \$29,700.

NOTE 5 - SUBSEQUENT EVENTS

On January 14, 2018, the Organization received a \$5 million grant from a charitable fund to "accelerate much-needed research for ME/CFS and related chronic complex diseases." Through March 26, 2018, the entire \$5 million has been collected by the Organization from the charitable fund.