

RACE TO ERASE MS  
FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT AUDITORS  
DECEMBER 31, 2016 AND 2015

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### **REPORT OF INDEPENDENT AUDITORS**

The Board of Directors  
Race to Erase MS  
Los Angeles, California

We have audited the accompanying financial statements of Race to Erase MS, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 Race to Erase MS as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

  
BORODA HOLM

Encino, California  
June 1, 2017

RACE TO ERASE MS  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 767,516	\$ 4,922,393
Investments	3,383,952	157,332
Accounts receivable	45,000	6,000
Inventories	64,250	73,467
Prepaid expenses and deposits	64,605	27,111
Property and equipment, net	9,213	13,492
TOTAL ASSETS	<u>\$ 4,334,536</u>	<u>\$ 5,199,795</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 60,823	\$ 100,023
Grants payable	275,000	250,000
Deferred revenue	48,750	34,900
TOTAL LIABILITIES	<u>384,573</u>	<u>384,923</u>
NET ASSETS		
Unrestricted	3,949,963	4,814,872
TOTAL NET ASSETS	<u>3,949,963</u>	<u>4,814,872</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,334,536</u>	<u>\$ 5,199,795</u>

See notes to financial statements.

RACE TO ERASE MS  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED REVENUES AND GAINS		
Public support		
General donations	\$ 88,777	\$ 89,173
Event auction	273,490	367,411
Event contributions	985,974	1,220,962
Other fundraising events	223,084	319,470
Less: direct benefits to donors and sponsors	<u>(507,910)</u>	<u>(456,952)</u>
Total public support	<u>1,063,415</u>	<u>1,540,064</u>
Other revenue		
Interest and dividends	73,544	4,574
Unrealized loss on investments	(110,039)	(20,643)
Returned grant	43,179	-
Total other revenue (loss)	<u>6,684</u>	<u>(16,069)</u>
Total unrestricted revenues and gains	<u>1,070,099</u>	<u>1,523,995</u>
EXPENSES		
Program services - funding of MS research	<u>1,433,028</u>	<u>1,331,143</u>
Supportive services		
General and administrative	246,606	251,444
Fundraising costs	<u>255,374</u>	<u>280,775</u>
Total supportive services	<u>501,980</u>	<u>532,219</u>
Total expenses	<u>1,935,008</u>	<u>1,863,362</u>
CHANGE IN		
UNRESTRICTED NET ASSETS	(864,909)	(339,367)
UNRESTRICTED NET ASSETS,		
BEGINNING OF YEAR	4,814,872	5,154,239
UNRESTRICTED NET ASSETS,		
END OF YEAR	<u><u>\$ 3,949,963</u></u>	<u><u>\$ 4,814,872</u></u>

See notes to financial statements.

RACE TO ERASE MS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2016

	Program Services	Supportive Services		Total
		General & Administrative	Fundraising	
Salaries and payroll tax	\$ 180,330	\$ 135,247	\$ 135,247	\$ 450,824
Employee benefits	30,533	22,899	22,899	76,331
Computer and internet	5,294	3,970	3,970	13,234
Depreciation	1,711	1,284	1,284	4,279
Grant awards	1,000,000	-	-	1,000,000
Insurance expense	4,955	3,716	3,716	12,387
Meals and entertainment	1,298	974	974	3,246
Merchant, bank fees and interest	-	7,683	3,293	10,976
Miscellaneous expense	1,965	1,475	1,475	4,915
Office supplies	5,511	4,133	4,133	13,777
Other fundraising expense	-	-	9,781	9,781
Parking	5,180	3,885	3,885	12,950
Postage and shipping	3,071	2,303	2,303	7,677
Printing and design	-	321	8,810	9,131
Professional fees	69,981	42,600	-	112,581
Public awareness	19,185	-	35,118	54,303
Race to Erase MS production	-	-	507,910	507,910
Rent	19,499	14,625	14,625	48,749
Symposium	76,999	-	-	76,999
Telephone	1,488	1,117	1,117	3,722
Travel	6,028	374	2,744	9,146
Total functional expenses	1,433,028	246,606	763,284	2,442,918
Less expenses included with revenue	-	-	(507,910)	(507,910)
Total expenses	<u>\$ 1,433,028</u>	<u>\$ 246,606</u>	<u>\$ 255,374</u>	<u>\$ 1,935,008</u>

See notes to financial statements.

RACE TO ERASE MS  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2015

	Program Services	Supportive Services		Total
		General & Administrative	Fundraising	
Salaries and payroll tax	\$ 178,279	\$ 133,709	\$ 133,709	\$ 445,697
Employee benefits	31,532	23,650	23,650	78,832
Computer and internet	5,357	4,017	4,017	13,391
Depreciation	1,748	1,310	1,310	4,368
Donations	50,000	-	-	50,000
Education	8,088	-	-	8,088
Grant awards	900,000	-	-	900,000
Insurance expense	5,190	3,893	3,893	12,976
Meals and entertainment	467	351	351	1,169
Merchant, bank fees and interest	-	10,552	4,522	15,074
Miscellaneous expense	2,008	1,505	1,505	5,018
Office supplies	6,672	5,004	5,004	16,680
Other fundraising expense	-	-	25,589	25,589
Parking	4,194	3,146	3,146	10,486
Postage and shipping	3,042	2,282	2,282	7,606
Printing and design	-	4,971	7,566	12,537
Professional fees	34,250	41,152	-	75,402
Public awareness	23,930	-	48,329	72,259
Race to Erase MS production	-	-	456,952	456,952
Rent	19,199	14,400	14,400	47,999
Symposium	55,185	-	-	55,185
Telephone	1,504	1,128	1,128	3,760
Travel	498	374	374	1,246
Total functional expenses	1,331,143	251,444	737,727	2,320,314
Less expenses included with revenue	-	-	(456,952)	(456,952)
Total expenses	<u>\$ 1,331,143</u>	<u>\$ 251,444</u>	<u>\$ 280,775</u>	<u>\$ 1,863,362</u>

See notes to financial statements.

RACE TO ERASE MS  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (864,909)	\$ (339,367)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	4,279	4,368
Unrealized loss on investments	110,039	20,643
(Increase) decrease in operating assets		
Accounts receivable	(39,000)	31,808
Inventories	9,217	9,925
Prepaid expenses and deposits	(37,494)	(679)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(39,200)	15,654
Grants payable	25,000	(10,100)
Deferred revenue	13,850	(19,350)
	<u>(818,218)</u>	<u>(287,098)</u>
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,336,659)	(3,104)
Purchases of office equipment	-	(2,057)
	<u>(3,336,659)</u>	<u>(5,161)</u>
NET CASH USED IN INVESTING ACTIVITIES		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,154,877)	(292,259)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,922,393</u>	<u>5,214,652</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 767,516</u>	<u>\$ 4,922,393</u>

See notes to financial statements.



RACE TO ERASE MS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**NOTE 1. NATURE OF ACTIVITIES**

Race to Erase MS, formerly known as Nancy Davis Foundation for Multiple Sclerosis (the "Organization") is dedicated to the treatment and ultimate cure of Multiple Sclerosis (MS). Funding research is the core focus of the Organization and all funds raised support our Center Without Walls program, a selected network of the nation's top MS research centers. This nationwide collaboration of physicians and scientists are on the cutting-edge of innovative research programs, working as a team on therapeutic approaches to eradicate MS. In addition to combating MS through research in a clinical environment, we hope to increase awareness by educating the public about this mystifying disease.

The Organization's activities are supported primarily by its annual gala event the "Race to Erase MS" ("Event"). All funds raised support the Center Without Walls program, a selected network of the nation's top MS research centers. This nationwide collaboration of physicians and scientists are on the cutting-edge of innovative research programs, working as a team on therapeutic approaches to eradicate MS. In addition to combating MS through research in a clinical environment, the Organization also strives to increase awareness by educating the public about this mystifying disease. The Organization hosts an annual MS Forum and Expo which features an open discussion with leading scientists from the Center Without Walls program. The forum is a unique opportunity to speak with MS doctors about the advances that have been made in multiple sclerosis research and patient care. The event is free and open to the public.

The Race to Erase MS Center Without Walls ("CWW") program has provided support that has permitted the medical community to link together multidisciplinary scientific programs and expertise across the country to advance the understanding of the cause of MS and to develop new treatments. The Center is a break-through success because of the vision, insight and flexibility of these extraordinary doctors. The Center's theme is simple; communication - doctors working together toward a mutual goal. When this goal is reached, all will share in the victory. The Center's network of the top MS institutions that have established leading, innovative research programs presently include UC San Francisco, Harvard, Yale, USC, Johns Hopkins, Oregon Health Sciences University and Cedars-Sinai Medical Center. These centers share information via an intranet database specifically designed for CWW recipients and attend semi-annual symposiums supported by the Organization to present current research.

The Center constantly strives to strengthen this revolutionary concept with new approaches to finding the brightest minds in this field. The Center's Scientific Advisory Board, spearheaded by

RACE TO ERASE MS  
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**NOTE 1. NATURE OF ACTIVITIES (Continued)**

Dr. Henry McFarland, reviews technology communication tools, researchers of CWW come together to share scientific accomplishments through monthly telephone conference calls, standard scientific advisory meetings and MS symposiums held four times a year.

In research supported by the Organization for MS, truly revolutionary breakthroughs in genetics and immunology have been made possible at the CWW. These breakthroughs create the potential for the development of more effective drugs against multiple sclerosis and give promise for a cure in the near future.

Below is a list of current research centers that received funds from the Organization. The Organization has funded Young Investigator Awards in the past and will do so in the future to attract the best and the brightest young doctors into MS research and fund projects through a competitive process.

Center Without Walls Grant Recipients:

- Brigham & Women's Hospital, Harvard
- Johns Hopkins Hospital
- Oregon Health Sciences University
- University of California, San Francisco
- University of Southern California
- Yale University School of Medicine

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The financial statements of the Organization have been prepared using accrual basis accounting, in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. Under these provisions, net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Expenses are classified as unrestricted. 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. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- *Unrestricted net assets, Board-designated* – Unrestricted net assets designated by the Board of Directors as restricted for mission expenditures.

RACE TO ERASE MS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (continued)**

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. Contributions received with donor-imposed restrictions that are met in the same year as contributions are received, are reported as revenue of the unrestricted net asset class.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations for which the corpus is maintained permanently by the Organization. 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 purpose or to be held in perpetuity as directed by donors. The income from the contributions is available to support activities as designated by the donors.

The Organization did not have designated, temporarily, or permanently restricted net assets at December 31, 2016 and 2015.

**Contributed goods and services**

The Organization records the value of donated goods and services at estimated fair value on the date of donation when an objective basis is available. The contribution of services is recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing these skills that would typically need to be purchased if not provided by donation. In addition, the Organization receives services from a large number of volunteers who give significant amounts of their time in the Organization's program and fundraising events, which is considered valuable. No amount has been reflected for these types of donated services, as they do not meet the criteria outlined above.

**Contributions**

Contributions, including unconditional promises to give, are recorded when received or pledged. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate.

**Cash and cash equivalents**

The Organization considers all highly liquid instruments, with a maturity of three months or less, to be cash equivalents.

RACE TO ERASE MS  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments and investment income**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Investment income includes dividends and interest and is recognized as revenue in the year in which it is earned. The amounts are reported as an increase in unrestricted net assets unless otherwise restricted by the donor. Realized and unrealized gains and losses on investments are classified and reported as increase or decrease unrestricted net assets, unless otherwise restricted by the donor.

**Property and equipment**

Purchased property and equipment are carried at cost. Donated property and equipment are recorded at market value at date of donation. The Organization capitalizes all expenditures for property and equipment in excess of approximately \$1,000, which includes computers, software, office equipment, furniture, fixtures, and leasehold improvements

Property and equipment are depreciated on straight-line basis over the following periods:

Furniture and fixture	5-7 years
Equipment	3-5 years
Software	3-5 years
Leasehold improvements	estimated life of the assets or the lease term (Whichever is shorter)

Property and equipment and related accumulated depreciation are as follows at December 31:

	2016	2015
Office equipment	\$ 26,404	\$ 26,404
Less: accumulated depreciation	(17,191)	(12,912)
	<u>\$ 9,213</u>	<u>\$ 13,492</u>

**Inventories**

Inventories are stated at the lower of cost or market determined by the first in, first out method. Inventories consist of branded merchandise held for use in program services and sales to unrelated parties.

RACE TO ERASE MS  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Market and credit risk concentrations**

The Organization's investments do not have a significant concentration of credit or market risk within any industry or group of investments. The Organization places its cash and cash equivalents with credit worthy, high quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000.

As of December 31, 2016, the Organization invested in funds held at UBS Financial Services Inc. that represent 78.1% of total unrestricted assets.

**Deferred revenue**

Resources received in exchange transactions are recognized as deferred revenue to the extent that the earnings process has not been completed. Certain attendees for the annual event send their payments in advance. These amounts are recorded as deferred revenue. Deferred revenue as of December 31, 2016 and 2015 was \$48,750 and \$34,900, respectively.

**Functional allocation of expenses**

Functional expenses have been allocated between program services and management and general services based on analysis of personnel time and facility space utilized for the related activities. Additionally, the expenses related to the newsletter containing a fundraising appeal have been allocated between program, management and general and fundraising expense as indicated on the statements of functional expenses.

**Income taxes**

The Organization is generally exempt from income taxes as a publicly supported organization under Section 501(c) (3) of the Internal Revenue Code and corresponding California Code sections. However, income generated from activities unrelated to the Organization's exempt purpose is subject to tax. The Organization did not have any unrelated business income for the years ended December 31, 2016 and 2015. Accordingly, the accompanying financial statements contain no provision for income taxes.

The Organization is subject to a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. After evaluating the tax position taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2016 and 2015. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the year assessed as other operating expenses. No interest or penalties have been assessed as of December 31, 2016 and 2015.

The Organization believes it is no longer subject to income tax examinations for years prior to 2013.

RACE TO ERASE MS  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates

**Subsequent Events**

Management has evaluated subsequent events through June 1, 2017, which is the date the accompanying financial statements were available to be issued, and no events have occurred from the statement of financial position date that would affect the accompanying financial statements.

**NOTE 3. FAIR VALUE MEASUREMENTS**

At December 31, 2016 and 2015, the Organization's financial instruments included cash and cash equivalents, receivables, accounts payable, accrued expenses, and grants payable. The carrying amounts reported in the accompanying statements of financial position for these financial instruments approximate their fair values.

Investments are recorded on a three-level hierarchy for disclosure of fair value measurements. FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Valuation based on quoted prices for identical assets and liabilities in active markets.

Level 2 – Valuation based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Valuations based on unobservable inputs reflecting the Organization's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.



RACE TO ERASE MS  
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**NOTE 3. FAIR VALUE MEASUREMENTS (continued)**

The table below presents the balance of assets measured at fair value on a recurring basis at December 31, 2016 and 2015.

Assets at Fair Value as of December 31, 2016				
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equities	338,700			338,700
Fixed -income funds	3,045,252	-	-	3,045,252
Total assets at fair value	\$3,383,952	-	-	\$3,383,952

Assets at Fair Value as of December 31, 2015				
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Common stocks	157,332	-	-	157,332
Total assets at fair value	\$157,332	-	-	\$157,332

**NOTE 4. RACE TO ERASE MS**

During the spring of each year, the Organization organizes the “Race to Erase MS”, which serves as a campaign and fundraising event. For the years ended December 31, 2016 and 2015, the Organization recorded revenue of \$1,259,464 and \$1,588,373 related to this event, respectively.

RACE TO ERASE MS  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5. GRANTS PAYABLE**

As of December 31, 2016 and 2015, the Organization made grants to various medical centers and universities for research. These agreements are subject to certain compliance requirements and can be rescinded by the Organization for breach. All grants are payable within one year. The amount outstanding on these grant commitments was \$275,000 and \$250,000 at December 31, 2016 and 2015, respectively.

**NOTE 6. LEASE COMMITMENT**

In October 2013, the Organization entered into a lease for its office facility which expires on February 28, 2019. Future minimum lease commitments under the operating lease subsequent to December 31, 2016 are as follows:

2017	\$49,500
2018	\$51,070
2019	<u>\$8,556</u>
Total	<u>\$109,126</u>

For the years ended December 31, 2016 and 2015, rental expense including maintenance charges for the facility was \$48,749 and \$47,999, respectively, all of which is included as "Rent" in the statements of functional expenses.