

National MPS Society, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2018



National MPS Society, Inc.
December 31, 2018

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Independent Auditor's Report

To the Board of Directors
National MPS Society, Inc.

We have audited the accompanying financial statements of National MPS Society, Inc. (the "Society") which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows, and functional expenses 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 31, 2018, 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.

Emphasis of Matters

As described in *Note 2* to the financial statements, in 2018, the Society adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

The 2017 financial statements, before they were restated for the matter discussed in *Note 11*, were audited by other auditors, and their report thereon, dated May 2, 2018, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

BKD, LLP

Fort Worth, Texas
June 21, 2019

National MPS Society, Inc.
Statement of Financial Position
December 31, 2018

Assets

Cash and cash equivalents	\$ 443,245
Contributions receivable	70,500
Prepaid expenses	2,216
Accrued interest	4,861
Property and equipment, net of accumulated depreciation of \$24,128	10,267
Investments with donor restriction for endowment	1,097,988
Investments without donor restriction	<u>2,125,254</u>
Total assets	<u><u>\$ 3,754,331</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ <u>18,963</u>
Total liabilities	<u>18,963</u>

Net Assets

Without donor restrictions	
Undesignated	1,447,995
Designated	<u>289,179</u>
	1,737,174
With donor restrictions	<u>1,998,194</u>
Total net assets	<u><u>3,735,368</u></u>
Total liabilities and net assets	<u><u>\$ 3,754,331</u></u>

National MPS Society, Inc.
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Revenue and Other Support:			
Contributions			
General, pledges	\$ 158,389	\$ 70,500	\$ 228,889
Research	-	113,848	113,848
Endowment	-	59,186	59,186
Other programs	-	14,175	14,175
Membership dues	3,323	-	3,323
Conference income	723,922	-	723,922
Special events	446,357	229,150	675,507
Other sales, net of costs of \$3,789	-	863	863
Interest and dividends, net of fees	86,745	34,285	121,030
Net unrealized and realized loss on investments	(111,351)	(111,915)	(223,266)
Net assets released from restrictions:			
Satisfaction of program restrictions	968,536	(968,536)	-
Satisfaction of time restrictions	25,000	(25,000)	-
Total revenue and support	<u>2,300,921</u>	<u>(583,444)</u>	<u>1,717,477</u>
Expenses:			
Program expenses:			
Research	391,377	-	391,377
Family support	234,750	-	234,750
Advocacy and education	1,159,687	-	1,159,687
Total program expenses	<u>1,785,814</u>	<u>-</u>	<u>1,785,814</u>
Supporting services:			
General and administrative	217,934	-	217,934
Fundraising	237,950	-	237,950
Total supporting expenses	<u>455,884</u>	<u>-</u>	<u>455,884</u>
Total expenses	<u>2,241,698</u>	<u>-</u>	<u>2,241,698</u>
Change in Net Assets	<u>59,223</u>	<u>(583,444)</u>	<u>(524,221)</u>
Net Assets, Beginning of Year, As Previously Reported	1,441,883	2,817,706	4,259,589
Adjustments Applicable to Prior Years (Note 11)	<u>236,068</u>	<u>(236,068)</u>	<u>-</u>
Net Assets, Beginning of Year, As Restated	<u>1,677,951</u>	<u>2,581,638</u>	<u>4,259,589</u>
Net Assets, End of Year	<u>\$ 1,737,174</u>	<u>\$ 1,998,194</u>	<u>\$ 3,735,368</u>

National MPS Society, Inc.
Statement of Cash Flows
Year Ended December 31, 2018

Cash Flows from Operating Activities	
Change in net assets	\$ (524,221)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Contributions restricted for endowment	(59,186)
Depreciation	7,761
Net unrealized and realized loss on investments	223,266
Changes in assets and liabilities:	
Prepaid expenses and other assets	(2,216)
Contributions receivable	(45,500)
Other receivables	(4,861)
Accounts payable and accrued expenses	7,895
Net cash used in operating activities	<u>(397,062)</u>
Cash Flows from Investing Activities	
Sales and maturities of investments	322,076
Purchases of investments	(611,369)
Purchase of equipment	(8,205)
Net cash used in investing activities	<u>(297,498)</u>
Cash Flows from Financing Activities	
Proceeds from contributions restricted for endowment	<u>59,186</u>
Net cash provided in financing activities	<u>59,186</u>
Change in Cash and Cash Equivalents	(635,374)
Cash and Cash Equivalents, Beginning of Year	<u>1,078,619</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 443,245</u></u>

National MPS Society, Inc.
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services				Supporting Services			
	Research	Family Support	Advocacy and Education	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries and fringe benefits	\$ 29,349	\$ 108,903	\$ 109,792	\$ 248,044	\$ 103,328	\$ 85,497	\$ 188,825	\$ 436,869
Payroll tax	2,265	8,404	8,472	19,141	7,973	6,598	14,571	33,712
Awards	-	-	-	-	-	2,664	2,664	2,664
Bereavement	-	5,044	-	5,044	-	-	-	5,044
Printing	1,898	1,898	16,782	20,578	12,543	7,496	20,039	40,617
Postage	1,870	1,870	2,960	6,700	5,851	4,110	9,961	16,661
Conferences, meetings, and travel	-	19,741	971,486	991,227	-	-	-	991,227
Family assistance	-	75,101	-	75,101	-	-	-	75,101
Research grants	342,206	-	-	342,206	-	-	-	342,206
Telephone	981	981	981	2,943	1,962	-	1,962	4,905
Office supplies	945	945	945	2,835	1,889	-	1,889	4,724
Insurance	1,385	1,385	1,385	4,155	2,771	-	2,771	6,926
Legal and audit	-	-	-	-	18,800	-	18,800	18,800
Subscriptions, dues, and fees	-	-	7,604	7,604	23,740	26,214	49,954	57,558
Fundraising expenses	-	-	-	-	-	79,078	79,078	79,078
Building rent and utilities	8,240	8,240	8,240	24,720	16,480	-	16,480	41,200
Equipment	686	686	686	2,058	1,372	-	1,372	3,430
Miscellaneous	-	-	-	-	81	-	81	81
Contract service	-	-	28,802	28,802	18,039	26,293	44,332	73,134
Total Expenses Before Depreciation	389,825	233,198	1,158,135	1,781,158	214,829	237,950	452,779	2,233,937
Depreciation	1,552	1,552	1,552	4,656	3,105	-	3,105	7,761
Total Expenses	\$ 391,377	\$ 234,750	\$ 1,159,687	\$ 1,785,814	\$ 217,934	\$ 237,950	\$ 455,884	\$ 2,241,698

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

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

Nature of Activities

The National MPS Society, Inc. (the “Society”) is a not-for-profit organization that exists to cure, support, and advocate for mucopolysaccharidosis (“MPS”) and Mucopolysaccharidosis (“ML”). To achieve this goal, the Society supports research, provides support to individuals and families affected by MPS or related diseases, and promotes public and professional awareness.

Use of 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 revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents includes \$137,031 held in a money market account as of December 31, 2018.

At December 31, 2018, the Society’s cash accounts exceeded federally insured limits by approximately \$107,000.

Property and Equipment

Property and equipment that are purchased are recorded at cost and depreciated using the straight-line method over approximately three to five years. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restriction unless the donor has restricted the donated asset to a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Society reclassifies net assets with donor restrictions to net assets without donor restriction at that time.

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

Long-Lived Assets Impairment

The Society evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended December 31, 2018.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statement of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The Board of Directors has designated, from net assets without donor restrictions, net assets for future activities and programs of the Society.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity until it is appropriated for expenditure in accordance with the Society's spending policy.

Contributions and Revenue Recognition

Contributions are recognized when the donor makes an unconditional promise to give to the Society. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

Membership dues are recognized as revenue in the year in which they relate to.

Special event revenue is revenue recognized from events organized by volunteers or by the Society that generate income from fundraising functions designed to attract donors and raise awareness.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Donated Materials and Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. No amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services; however, a number of individuals have donated significant amounts of their time in the Society's activities.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among program services and supporting services based upon specific identification of costs or approximate percentage of time expended, as appropriate.

Federal Income Tax

The Society has adopted the provisions of ASC-740-10, *Accounting for Uncertainty in Income Taxes*. The society recognizes the tax (benefit) expense from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. Any such tax (benefit) expense is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The society had no unrecognized tax benefits at December 31, 2018. The Society files an exempt organization return with the Internal Revenue Service (IRS). It is not a "private foundation" for tax purposes. The Society had no taxable unrelated business income for the year ended December 31, 2018. Accordingly, a provision for income taxes has not been established in the accompanying financial statements.

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

Recent Accounting Pronouncements

ASU 2018-08 – The FASB issued Accounting Standards Update 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides clarification in 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 determining whether a contribution is conditional. The guidance is applicable for transactions where the entity serves as the resource recipient beginning after December 15, 2018, and for transactions in which the entity serves as the resource provider beginning after December 15, 2019. Management is in the process of determining the impact of this pronouncement.

ASU 2018-13 – In August 2018, FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 are effective for all entities for fiscal years beginning after December 15, 2019. Changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Management is in the process of determining the impact of this pronouncement.

Subsequent Events

The Society has evaluated subsequent events through June 21, 2019, which is the date the financial statements were available to be issued.

Note 2: Change in Accounting Principle

In 2018, the Society adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted, and permanently restricted.

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

Statement of Activities

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

This change has no impact on previously reported total change in net assets.

Note 3: Fair Value of Assets And Liabilities

The Society accounts for its financial assets and liabilities under fair value accounting standards. These standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, 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 supported by little or no market activity and are significant to the fair value of the assets or liabilities

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used at December 31, 2018.

Money market funds: Valued at fair value at quoted net asset value of shares, which are \$1 per share, at year end.

National MPS Society, Inc.
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Certificates of deposit: Valued at cost which approximates fair value.

Corporate and municipal bonds: Valued at the closing price reported on the major market on which the individual securities are traded or have reported broker trades which may be considered indicative of an active market. Where quoted prices are available in an active market, the investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy.

Equities: Valued at the closing price reported from national securities exchanges.

Mutual and exchange-traded funds: Shares of mutual funds are valued at the net asset value (NAV) of shares held by the Society and are valued at the closing price reported on the active market on which the individual securities are traded.

The Society's investments are categorized at December 31, 2018, as follows:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 126,001	\$ -	\$ -	\$ 126,001
Certificates of deposit	620,000	-	-	620,000
Equities	227,791	-	-	227,791
Municipal bonds	-	19,553	-	19,553
Corporate bonds	168,966	-	-	168,966
Mutual funds	542,438	-	-	542,438
Exchange-traded funds - fixed income	420,505	-	-	420,505
	<u>\$ 2,105,701</u>	<u>\$ 19,553</u>	<u>\$ -</u>	<u>\$ 2,125,254</u>

The Society's investments restricted and designated for endowment at December 31, 2018, are as follows:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments Restricted/Designated for Endowment				
Cash and cash equivalents	\$ 146,552	\$ -	\$ -	\$ 146,552
Equities	568,368	-	-	568,368
Mutual Funds	365,876	-	-	365,876
Exchange-traded funds - fixed income	17,192	-	-	17,192
	<u>\$ 1,097,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,097,988</u>

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

Note 4: Board Designated Net Assets

The designated net assets without donor restriction are amounts designated by the Board of Directors for future activities and programs of the Society. Activity in designated net assets without donor restriction for the years ended December 31, 2018, follows:

Balance, Beginning of Year	\$ 75,919
Additions to Board designated net assets	230,000
Allocated to endowment	13,260
Reductions of Board designated net assets	<u>(30,000)</u>
Balance, End of Year	<u><u>\$ 289,179</u></u>

Note 5: Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2018:

Subject to Expenditure for Specified Purpose	
Medical Research	\$ 414,876
Family assistance programs	22,373
Future programs	<u>392,457</u>
	829,706
Subject to the passage of time	
Contributions receivable	70,500
Endowments	
Subject to Society's spending policy and appropriation	
Underwater endowments	(26,702)
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	<u>1,124,690</u>
	<u><u>\$ 1,998,194</u></u>

During 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follow:

Expiration of time restrictions	\$ 25,000
Satisfaction or purpose restriction	
Medical research	330,947
Family assistance programs	126,379
Future programs	<u>511,210</u>
	<u><u>\$ 993,536</u></u>

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

Note 6: Endowment Funds

The Society's governing body is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). As a result, the Society classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

The Society's governing body of the Organization has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Society considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Society has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Society and the donor-restricted endowment funds
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Society
7. Investment policies of the Society

The composition of net asset by type of endowment funds for the year ended December 31, 2018, follows:

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor restricted			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 1,124,690	\$ 1,124,690
Accumulated investment loss	-	(26,702)	(26,702)
Board-designated endowment funds	13,260	-	13,260
	<u>\$ 13,260</u>	<u>\$ 1,097,988</u>	<u>\$ 1,111,248</u>

The changes in the endowment net assets for the years ended December 31, 2018, follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Balance, beginning of year	\$ 14,220	\$ 1,116,432	\$ 1,130,652
Contributions	-	59,186	59,186
Investment return, net	(960)	(77,630)	(78,590)
Balance, end of year	<u>\$ 13,260</u>	<u>\$ 1,097,988</u>	<u>\$ 1,111,248</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. At December 31, 2018, funds with original gift value of \$1,124,690, fair value of \$1,097,988, and deficiencies of \$26,702 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions.

Return Objectives and Risk Parameters

The Society aims to invest its financial assets to maximize total return consistent with an acceptable level of risk. The Society expects its endowment assets, over time, to produce an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

Strategies Employed for Achieving Objectives

Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return or to reduce bank service charges.

Endowment assets will be invested in a well-diversified asset mix, which includes time deposits and equity and debt securities, that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the fund if possible.

Spending Policy

The endowment policy provides that a distribution of up to 7% of the average net fair market value of the Fund's assets may be made annually to cover operations and overhead expenses; however, the distribution rate was 0% for 2018. The policy has an additional provision for an emergency invasion of funds of up to 15% of the value of the fund during a calendar year, if required.

Note 7: Liquidity and Availability

The following table reflects the Society's financial assets as of December 31, 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, restricted assets, endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon in the board approves that action.

Financial Assets, Year End	
Cash and cash equivalents	\$ 443,245
Contributions receivable	70,500
Other receivables	4,861
Investments with donor restrictions for endowment	1,097,988
Investments without donor restrictions	<u>2,125,254</u>
Total financial assets at year end	3,741,848
Donor-imposed restrictions	
Endowment	(1,097,988)
Restricted funds	<u>(829,706)</u>
Net financial assets after donor imposed restrictions	<u>1,814,154</u>
Internal designations	
Endowment	(13,260)
Board designated funds	<u>(289,179)</u>
Financial assets available to meet general expenditures over the next 12 months	<u><u>\$ 1,511,715</u></u>

National MPS Society, Inc.
Notes to Financial Statements
December 31, 2018

Note 8: Retirement Plan

The Society has adopted a Simple Retirement Account Program which provides a matching provision from the Society on employee contributions up to 3% of the employees' compensation. Matching contributions were \$11,409 in 2018.

Note 9: Lease Commitment

The Society entered into an operating lease agreement, beginning April 2017, for office space having a term of sixty-two months. Rent expense was approximately \$39,000 in 2018. At December 31, 2018, the future minimum lease commitments are approximately:

2020	\$ 40,000
2021	41,000
2022	<u>17,000</u>
	<u><u>\$ 98,000</u></u>

Note 10: Concentrations

In 2018, approximately 23% of the Society's contribution revenues were provided by one contributor. It is always considered reasonably possible that benefactors, grantors, or contributors might be lost in the near term.

Note 11: Correction of An Error

The 2017 financial statements were restated for an error in the amount of net assets with donor restriction released in 2017. The error was identified in 2018, and resulted in an adjustment to the opening balances of \$236,068. As a result of this adjustment, net assets without donor restriction at December 31, 2017 increased from \$1,441,883 as previously reported to \$1,677,951 and net assets with donor restriction decreased from \$2,817,706 as previously reported to \$2,581,638. The adjustment did not impact the previously reported change in net assets.