

Audited Financial Statements

Solve ME/CFS Initiative

June 30, 2017

Quigley & Miron

Solve ME/CFS Initiative
Audited Financial Statements
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Independent Auditor's Report

Board of Directors
Solve ME/CFS Initiative
Los Angeles, California

We have audited the accompanying financial statements of Solve ME/CFS Initiative (Organization), a nonprofit organization, which comprise the statement of financial position as of June 30, 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.

Auditor's Responsibility

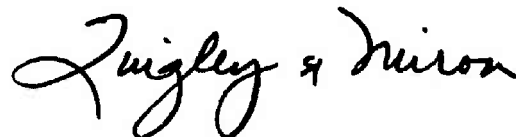
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 Solve ME/CFS Initiative as of June 30, 2017, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.



Los Angeles, California
November 1, 2017

Solve ME/CFS Initiative
Statement of Financial Position
June 30, 2017

Assets

Cash	\$ 835,728
Investments—Notes 3 and 4	16,825
Prepaid expenses and other assets	22,582
Property and equipment, net—Note 5	4,392

Total Assets \$ 879,527

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 79,000
Accrued liabilities	43,279

Total Liabilities 122,279

Net Assets

Unrestricted	640,781
Temporarily restricted—Note 7	110,867
Permanently restricted—Note 8	5,600

Total Net Assets 757,248

Total Liabilities and Net Assets \$ 879,527

See notes to financial statements.

Solve ME/CFS Initiative
Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues				
Contributions and grants	\$ 1,349,866	\$ 409,057	\$ 200	\$ 1,759,123
Interest and other income	37,056			37,056
Gain on investments	923	1,071		1,994
In-kind contributions—Note 9	176,259			176,259
Total Support and Revenue Before Reclassifications	1,564,104	410,128	200	1,974,432
Reclassifications				
Net assets released from restrictions	368,197	(368,197)		
Total Support and Revenue After Reclassifications	1,932,301	41,931	200	1,974,432
Expenses				
Program services	1,657,084			1,657,084
Management and general	312,890			312,890
Fundraising and development	132,052			132,052
Total Expenses	2,102,026			2,102,026
Change in Net Assets	(169,725)	41,931	200	(127,594)
Net Assets at Beginning of Year	810,506	68,936	5,400	884,842
Net Assets at End of Year	\$ 640,781	\$ 110,867	\$ 5,600	\$ 757,248

See notes to financial statements.

Solve ME/CFS Initiative
Statement of Functional Expenses
Year Ended June 30, 2017

Expenses	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries	\$ 561,907	\$ 120,033	\$ 74,336	\$ 756,276
Payroll taxes	31,749	21,166		52,915
Other employee benefits	37,979	25,319		63,298
Total Personnel Expenses	631,635	166,518	74,336	872,489
Grants and fellowships	313,531			313,531
Contracted services	130,137	73,297	19,573	223,007
Advocacy and communication	191,703			191,703
Printing and postage	86,909	1,637	29,184	117,730
Research	115,489			115,489
Travel, conference and meetings	83,170	28,592	1,319	113,081
Occupancy	30,063	20,042		50,105
Office	20,394	12,014	2,373	34,781
Information technology	32,602			32,602
Bank fees	1,597	1,065		2,662
Insurance	9,494	6,329		15,823
Development events	5,267		5,267	10,534
Depreciation	5,093	3,396		8,489
Total Expenses	<u>\$ 1,657,084</u>	<u>\$ 312,890</u>	<u>\$ 132,052</u>	<u>\$ 2,102,026</u>

See notes to financial statements.

Solve ME/CFS Initiative
Statement of Cash Flows
Year Ended June 30, 2017

Cash Flows from Operations

Change in net assets	\$ (127,594)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	8,489
Gain on investments	(1,994)
Changes in operating assets and liabilities	
Increase in prepaid expenses and other assets	(14,306)
Increase in accounts payable	48,951
Decrease in accrued liabilities	(42,364)
Cash Used in Operating Activities	(128,818)

Cash Flows from Investing Activities

Purchases of property and equipment	(4,101)
Proceeds from sales of investments	923
Cash Used in Investing Activities	(3,178)

Net Decrease in Cash (131,996)

Cash at Beginning of Year

967,724

Cash at End of Year \$ 835,728

Supplementary Disclosures

Income taxes paid	<u><u>\$</u></u>
Interest paid	<u><u>\$</u></u>

See notes to financial statements.

Solve ME/CFS Initiative
Notes to Financial Statements
June 30, 2017

Note 1—Organization and Key Accomplishments

Organization—Solve ME/CFS Initiative (Organization) is a non-profit corporation whose purpose is to conquer Myalgic Encephalomyelitis/chronic fatigue syndrome (ME/CFS). The Organization works toward its mission for ME/CFS to be widely understood, diagnosable, curable and preventable by using strategies to stimulate research aimed at the early detection, objective diagnosis and effective treatment of ME/CFS through expanded public, private and commercial investment. Substantially all of the Organization's revenue is derived from contributions from donors and other interested parties and grants from foundations. On May 6, 2014, the Organization changed its name from CFIDS Associations of America, Inc. to Solve ME/CFS Initiative. The organization relocated from Charlotte, North Carolina to Los Angeles, California in August 2014.

Key Accomplishments—A description of the Organization's program objectives and summary of key accomplishments during the year ended June 30, 2017 follows:

ME/CFS Research:

- Five new research projects were funded by the Organization in five nations, as the first class of Ramsay Grants for ME/CFS research.
- A new research project was launched with Cornell University and Metabalon.
- Four research webinars were presented to educate patients and clinicians regarding the disease.
- The Dr. Cathleen Gleeson Fund was launched to support ME/CFS research.
- Work continued on building the new PEER Patient Registry, to be implemented upon completion of the NIH/CDC Common Data Elements project.
- Two papers funded by the Organization were published:
 - University of Wisconsin by Dr. Dane Cook regarding neural consequences of PEM
 - University of Toronto by Dr. Patrick McGowan, regarding epigenetics in ME/CFS
- Expertise was provided by the Organization for the NIH/CDC Common Data Elements project.
- The Organization participated in CDC discussions regarding medical education and disease definition.
- The Organization advised NIH researchers on their new intramural study.
- Travel grants were provided by the Organization to young researchers to attend an international ME/CFS conference.
- The Organization presented ME/CFS research at Precision Medicine Worldwide conference.
- The Organization presented research at the London Invest in ME International Conference.

Advocacy

- The largest ever advocacy day was staged in DC, bringing together patients and advocates with 70 Congress members and their staffs.
- President Carol Head made a forceful presentation at CFSAC (the Federal Chronic Fatigue Advisory Committee meeting of the Department of Health and Human Services) regarding the disappointing federal response to ME/CFS.

Solve ME/CFS Initiative

Notes to Financial Statements—Continued

Note 1—Organization and Key Accomplishments—Continued

- A webinar on Advocacy ("Advocacy 101") was presented to help make members of the ME/CFS community more effective in their work.
- The Organization successfully reinstated CDC funds for ME/CFS in the federal budget.
- Bipartisan support was obtained with signatures from 55 Congress members urging more action from the NIH for ME/CFS.
- Representatives of the Organization spoke at two #MillionsMissing rallies, in Chicago and San Francisco.
- A congressional briefing was convened on Capitol Hill with Senator Markey of Massachusetts.

Public Awareness Promotion

- A billboard was produced that was hung high above Times Square in New York, demonstrating how devastating ME/CFS is; the billboard message ran several times per hour for three months.
- The Organization partnered with the new film Unrest to promote it in cities across the world.

Other

- The Organization coordinated with the NIH on the donation of ME/CFS patients' brains.

Note 2—Summary of Significant Accounting Policies

Financial Statement Presentation—The financial statements of the Organization have been prepared on the accrual basis of accounting, in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP). The Organization's net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the Organization and changes therein are presented and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in carrying out the Organization's mission.

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 the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Permanently restricted net assets—Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. Investment income generated from these funds is available for general support of the Organization's programs and operations unless otherwise stipulated by the donor.

Income Taxes—The Organization is incorporated as a nonprofit voluntary health agency under the laws of the State of North Carolina and qualified to transact intrastate business in the State of California. Further, the Organization is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and qualifies as a public charity under Code Sections 509(a)(1) and 170(b)(1)(A)(vi).

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any

Solve ME/CFS Initiative
Notes to Financial Statements—Continued

Note 2—Summary of Significant Accounting Policies—Continued

positions that would not be considered ‘more likely than not’ to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2017. Generally, the Organization’s information returns remain open for examination for a period of three (federal) or four (state of California) year from the date of filing.

Concentration of Credit Risk—Cash and cash equivalents, investments in securities, and receivables are the primary form of concentration of credit risk to which the Organization is subject. The Organization places its cash and cash equivalents with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times, in the normal course of business, such cash balances are in excess of the FDIC/SIPC insurance limits, but management deems the risk of loss due to these concentrations to be minimal. Conservative investment guidelines established by the Board of Directors (Board) govern the Organization’s investments in securities to achieve diversification of the portfolio.

Investments—Investments in securities are initially recorded at cost, if purchased, or fair market value, if received as a contribution. Subsequent to acquisition, investments in securities are reported at fair value. Investment income, gains and losses are reported as unrestricted income unless use of the earnings is restricted by the donor.

Property and Equipment—Property and equipment items are stated at cost or at fair value at the date of donation, if contributed. Expenditures for acquisitions, renewals and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. Depreciation is charged to expense over the estimated useful lives of the assets principally using accelerated methods. Estimated useful lives range as follows:

Furniture and fixtures	5-7 years
Computers and equipment	3-5 years

Contributions and Grants—All contributions and grants 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 restricted support that increases that net asset class.

Investment gain (loss)—Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases in the appropriate net asset category.

Research Grants—The Organization awards grants for medical research projects in the field of ME/CFS. To ensure that the most worthy and promising research projects are funded, the Organization periodically convenes a scientific advisory board that advises the Organization’s executive committee of its board of directors. The Organization’s executive committee, heavily weighing the recommendations of this advisory committee, makes all funding decisions. Members of the scientific advisory board include internationally respected researchers and clinicians. Awards are booked as payables upon completion of required documentation by research investigators and their sponsoring

Solve ME/CFS Initiative
Notes to Financial Statements—Continued

Note 2—Summary of Significant Accounting Policies—Continued

organizations and so are not recorded until the stipulations of the contracts are met.

In-Kind Contributions—The Organization periodically receives donated services for certain functions and donated assets. The assets, which primarily include investments, are stated at their fair value at time of donation. Donated services that do not require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services.

Functional Expenses—The costs of providing the various program and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been directly charged to the program services and supporting services benefitted. Indirect costs are allocated between program services, management and general, and fundraising expenses, based on an analysis of personnel time utilized for the related activities.

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 certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3—Investments

Investments consist of a pooled investment fund with the Foundation for the Carolinas.

Net investments return for the year ended June 30, 2017 is as follows:

Gain on investments	\$	1,994
Less investment management fees		(923)
Net	\$	<u>1,071</u>

Note 4—Fair Value

Accounting standards have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the entity has the ability to access at the measurement date. The Organization has no Level 1 assets or liabilities.

Solve ME/CFS Initiative
Notes to Financial Statements—Continued

Note 4—Fair Value—Continued

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other observable inputs that can be corroborated by observable market data. The Organization has no Level 2 assets or liabilities.

Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Assets and liabilities measured at fair value on a recurring basis at June 30, 2017 consist of a pooled investment fund considered to have Level 3 inputs.

A reconciliation of the Organization’s Level 3 net assets and liabilities at June 30, 2017 is as follows:

Beginning balance	\$ 15,754
Gain on investments	1,994
Investment management fees	<u>(923)</u>
Ending Balance	<u>\$ 16,825</u>

Note 5—Property and Equipment, Net

The major classes of property and equipment, net at June 30, 2017 are as follows:

Computers and equipment	\$ 56,534
Furniture and fixtures	<u>12,047</u>
	68,581
Less accumulated depreciation	<u>(64,189)</u>
Net	<u>\$ 4,392</u>

Total depreciation expense recorded for the year ended June 30, 2017 was \$8,489.

Note 6—Commitments

The Organization has office space lease agreements in Los Angeles. The office space lease agreement at Los Angeles expires in January 31, 2020. At June 30, 2017, future minimum lease payments are as follows:

<u>For the Year Ending June 30,</u>	
2018	\$ 51,543
2019	53,089
2020	<u>31,818</u>
Total	<u>\$ 136,450</u>

Solve ME/CFS Initiative
Notes to Financial Statements—Continued

Note 7—Temporarily Restricted Net Assets

The Organization's temporarily restricted net assets as of June 30, 2017 consist of the following:

Research activities	\$	86,067
Fundraising consultant		13,375
Endowment earnings		11,425
Total	\$	<u>110,867</u>

Note 8—Permanently Restricted Net Assets

The Organization's endowment consists of its beneficial interest in split-interest agreements held by others, and one investment fund and four unified pools of investments managed by the Organization established to support its operations and programs. The endowment comprises donor-restricted endowment funds only and, as of June 30, 2017, there were no funds designated by the Board to function as endowments. As required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The Board is aware that there is an implicit understanding that the market value of the donor-restricted endowment may, from time to time, fall below the fair value of the original gift as of the gift date due to market conditions or continued prudent expenditures by the Board of certain amounts of the endowment. If such a temporary deficit condition occurred, the Board would take all prudent steps, given ongoing market conditions, to restore the fair value of the fund to an amount at or above the amount of the original gift.

The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policies of the Organization

Solve ME/CFS Initiative
Notes to Financial Statements—Continued

Note 8—Permanently Restricted Net Assets—Continued

Return Objectives and Risk Parameters—It is the purpose of the Organization's endowment fund to secure the future of the Organization and to support its programs and operations as designated by the Board. The primary long-term financial objective is to preserve and enhance the real (i.e., inflation-adjusted) purchasing power of the endowment through a prudent long-term investment strategy. An additional objective is to provide a relatively predictable, stable, and (in real terms) constant stream of current income for the Organization's annual operating needs.

The primary investment objective of the endowment is to earn an average annual minimum nominal return of 6% to 8% per year. The Organization considers itself a risk-averse investor. That is, among various investment alternatives with comparable expected returns, the preference is for those having the lowest risk.

Strategies Employed for Achieving Objectives—The Organization manages its endowment on a total rate of return basis consisting of dividends, interest, and any net increase / decrease in market value of securities for the fiscal year, not favoring returns from one source over another.

The funds are invested in the asset allocation strategy for long-term growth as recommended by the Foundation for the Carolina's Investment Committee. This diverse mix of investments seeks to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results that provide an average annual real rate of return, net of fees, equal to or greater than spending, administrative fees, and inflation (Consumer Price Index).

Spending Policy and How the Investment Objectives Relate to Spending Policy—The Organization has a policy governing the amount of endowment earnings that can be released annually for spending, consistent with the restrictions, if any, placed on the endowment by donors until those amounts are appropriated for expenditure under the annual spending policy. Amounts available for distribution from the fund are based upon 4.5% of the fund's average balance for the previous three years and are evaluated on an annual basis for prudence.

In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an amount that will at least keep pace with expected inflation.

Change in endowment net assets for the year ended June 30, 2017 consists of:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at June 30, 2016	\$ 10,354	\$ 5,400	\$ 15,754
Gain on investments, net	1,071		1,071
Total Investment Return	1,071		1,071
Contributions		200	200
Endowment Net Assets at June 30, 2017	\$ 11,425	\$ 5,600	\$ 17,025

Solve ME/CFS Initiative
Notes to Financial Statements—Continued

Note 9—In-Kind Contributions

For the year ended June 30, 2017, total in-kind contributions was as follows:

Contracted services	\$	118,129
Advocacy		57,830
Research		<u>300</u>
Total	\$	<u><u>176,259</u></u>

Note 10—Employee Benefit Plan

The Organization sponsors a 403(b) retirement plan covering substantially all employees meeting certain service and age requirements. This plan is a defined contribution plan with voluntary employee participation. For the year ended June 30, 2017, the Organization contributed \$16,069 into the plan.

Note 11—Subsequent Events

Management evaluated all activities of Solve ME/CFS Initiative through November 1, 2017, which is the date the financial statements were available to be issued, and concluded that no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.