

EISNERAMPER

**FRIEDREICH'S ATAXIA
RESEARCH ALLIANCE**

FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021



FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Friedreich's Ataxia Research Alliance

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Friedreich's Ataxia Research Alliance (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Friedreich's Ataxia Research Alliance as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Friedreich's Ataxia Research Alliance and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Friedreich's Ataxia Research Alliance's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Friedreich's Ataxia Research Alliance's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Friedreich's Ataxia Research Alliance's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

EisnerAmper LLP

EISNERAMPER LLP
Philadelphia, Pennsylvania
June 1, 2023



FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Statements of Financial Position

	December 31,	
	2022	2021
ASSETS		
Cash and cash equivalents	\$ 3,279,967	\$ 2,555,336
Restricted cash	1,684,153	2,587,263
Contributions receivable, net	369,612	259,819
Prepaid expenses	52,398	94,042
Investments	1,728,750	1,976,866
Total current assets	7,114,880	7,473,326
Right-of-use assets	140,436	-
Other assets	5,458	5,458
Total other assets	145,894	5,458
Total assets	\$ 7,260,774	\$ 7,478,784
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 276,962	\$ 261,148
Deferred revenues	11,490	22,360
Current portion of lease liabilities	57,082	-
Total current liabilities	345,534	283,508
Long-term lease liabilities	84,815	-
Total liabilities	430,349	283,508
Net assets:		
Without donor restrictions	5,146,272	4,608,013
With donor restrictions	1,684,153	2,587,263
Total net assets	6,830,425	7,195,276
Total liabilities and net assets	\$ 7,260,774	\$ 7,478,784

See notes to financial statements.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Statements of Activities and Changes in Net Assets

	Year Ended December 31,					
	2022			2021		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and revenue:						
Contributions and conferences	\$ 2,696,949	\$ 4,343,977	\$ 7,040,926	\$ 1,715,245	\$ 2,065,047	\$ 3,780,292
Grants	75,000	38,747	113,747	-	212,315	212,315
Special events	4,080,492	-	4,080,492	3,738,463	-	3,738,463
In-kind contributions	770,062	-	770,062	474,453	-	474,453
Investment return (loss), net	(270,929)	-	(270,929)	189,134	-	189,134
Net assets released from restrictions	5,285,834	(5,285,834)	-	4,270,568	(4,270,568)	-
Total revenue and support	<u>12,637,408</u>	<u>(903,110)</u>	<u>11,734,298</u>	<u>10,387,863</u>	<u>(1,993,206)</u>	<u>8,394,657</u>
Expenses:						
Program services:						
Education, awareness and outreach	395,929	-	395,929	343,511	-	343,511
Patient registry and CCRN	1,038,076	-	1,038,076	1,092,555	-	1,092,555
Research and grant program	9,073,049	-	9,073,049	7,114,328	-	7,114,328
Research conferences	233,493	-	233,493	187,045	-	187,045
Total program services	<u>10,740,547</u>	<u>-</u>	<u>10,740,547</u>	<u>8,737,439</u>	<u>-</u>	<u>8,737,439</u>
Supporting services:						
Fundraising services:						
Special events	879,864	-	879,864	744,928	-	744,928
Other	184,754	-	184,754	166,864	-	166,864
Total fundraising services	<u>1,064,618</u>	<u>-</u>	<u>1,064,618</u>	<u>911,792</u>	<u>-</u>	<u>911,792</u>
General and administrative	293,984	-	293,984	255,521	-	255,521
Total supporting services	<u>1,358,602</u>	<u>-</u>	<u>1,358,602</u>	<u>1,167,313</u>	<u>-</u>	<u>1,167,313</u>
Total expenses	<u>12,099,149</u>	<u>-</u>	<u>12,099,149</u>	<u>9,904,752</u>	<u>-</u>	<u>9,904,752</u>
Change in net assets	538,259	(903,110)	(364,851)	483,111	(1,993,206)	(1,510,095)
Net assets at beginning of year	4,608,013	2,587,263	7,195,276	4,124,902	4,580,469	8,705,371
Net assets at end of year	\$ 5,146,272	\$ 1,684,153	\$ 6,830,425	\$ 4,608,013	\$ 2,587,263	\$ 7,195,276

See notes to financial statements.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Statement of Functional Expenses Year Ended December 31, 2022

	Program Services					Supporting Services			
	Education Awareness and Outreach	Patient Registry and CCRN	Research and Grant Program	Research Conferences	Totals	Fundraising Services			Totals
						Special Events	Other	General and Administrative	
Expenses:									
Auction items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,447	\$ -	\$ -	\$ 15,447
Awards and grants	-	774,269	8,460,000	-	9,234,269	-	-	-	9,234,269
Bad debts	-	-	-	-	-	-	-	22,500	22,500
Registration fees	-	-	-	-	-	5,272	4,627	546	10,445
Contracted services	112,222	63,752	123,057	27,196	326,227	249,480	17,105	65,749	658,561
Credit card and bank fees	13	-	55	40	108	78,129	11,141	164	89,542
Facilities and equipment	-	1,778	-	1,000	2,778	102,930	286	5,933	111,927
Rent and utilities	7,311	3,389	14,621	3,389	28,710	24,722	5,981	8,373	67,786
Subscriptions and licensing fees	4,025	70,019	7,417	54	81,515	19,390	10,214	5,614	116,733
Hospitality	1,029	-	-	-	1,029	3,324	44	754	5,151
Postage	320	1,246	-	2,113	3,679	8,791	8,349	1,297	22,116
Printing and copying	464	-	-	1,550	2,014	13,406	6,528	563	22,511
Supplies	5,514	1,956	-	1,167	8,637	62,312	1,459	4,276	76,684
Telecommunications	1,616	-	-	-	1,616	1,366	69	-	3,051
Insurance	-	-	-	-	-	1,580	7,644	9,278	18,502
Miscellaneous	-	-	-	-	-	-	-	641	641
Membership dues	3,600	-	440	147	4,187	-	-	-	4,187
Payroll, taxes and benefits	250,623	117,246	453,068	100,492	921,429	225,350	110,489	143,902	1,401,170
Sales taxes paid	-	-	-	-	-	8,180	-	-	8,180
Conferences, meetings and travel	9,192	4,421	14,391	96,345	124,349	60,185	818	24,394	209,746
Total expenses	\$ 395,929	\$ 1,038,076	\$ 9,073,049	\$ 233,493	\$ 10,740,547	\$ 879,864	\$ 184,754	\$ 293,984	\$ 12,099,149

See notes to financial statements.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Statement of Functional Expenses Year Ended December 31, 2021

	Program Services					Supporting Services			
	Education Awareness and Outreach	Patient Registry and CCRN	Research and Grant Program	Research Conferences	Totals	Fundraising Services			Totals
						Special Events	Other	General and Administrative	
Expenses:									
Advertising	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20	\$ 10	\$ -	\$ 30
Auction items	-	-	-	-	-	11,184	-	-	11,184
Awards and grants	-	879,604	6,517,688	-	7,397,292	-	-	-	7,397,292
Registration fees	-	-	-	-	-	2,834	5,983	644	9,461
Contracted services	69,458	46,623	98,717	43,063	257,861	170,110	8,580	40,716	477,267
Credit card and bank fees	-	-	60	-	60	68,620	13,320	189	82,189
Facilities and equipment	296	2,591	-	-	2,887	94,195	255	12,134	109,471
Rent and utilities	6,627	2,672	12,613	2,993	24,905	22,500	5,504	6,948	59,857
Subscriptions and licensing fees	5,015	70,000	6,542	322	81,879	12,389	8,545	4,559	107,372
Hospitality	333	-	342	300	975	4,515	-	625	6,115
Postage	1,692	-	481	-	2,173	5,962	5,624	1,232	14,991
Printing and copying	2,038	-	-	866	2,904	7,566	6,249	866	17,585
Supplies	57	-	1,873	162	2,092	68,297	2,039	2,569	74,997
Telecommunications	1,707	-	-	-	1,707	1,464	-	-	3,171
Insurance	-	-	-	-	-	737	3,957	11,993	16,687
Miscellaneous	-	-	-	-	-	-	-	144	144
Membership dues	2,600	-	220	-	2,820	-	-	-	2,820
Payroll, taxes and benefits	250,763	91,065	474,112	106,138	922,078	236,072	106,798	131,349	1,396,297
Sales taxes paid	-	-	-	-	-	6,241	-	-	6,241
Conferences, meetings and travel	2,925	-	1,680	33,201	37,806	32,222	-	41,553	111,581
Total expenses	\$ 343,511	\$ 1,092,555	\$ 7,114,328	\$ 187,045	\$ 8,737,439	\$ 744,928	\$ 166,864	\$ 255,521	\$ 9,904,752

See notes to financial statements.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Statements of Cash Flows

	Year Ended December 31,	
	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (364,851)	\$ (1,510,095)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Amortization of right-of use assets	43,925	-
Net realized gain on sale of securities	(12,976)	(259,754)
Net unrealized loss on securities	349,445	100,126
Donated securities	(176,540)	(457,781)
Proceeds from sale of donated securities	176,540	457,781
Bad debts	22,500	-
(Increase) decrease in:		
Contributions receivable	(132,293)	18,061
Prepaid expenses	41,644	(51,956)
Increase (decrease) in:		
Accounts payable	15,814	(247,548)
Deferred revenue	(10,870)	(77,640)
Lease liabilities	(42,464)	-
Net cash used in operating activities	<u>(90,126)</u>	<u>(2,028,806)</u>
Cash flows from investing activities:		
Proceeds from sale of securities	222,576	928,688
Purchase of securities	(310,929)	(801,100)
Net cash (used in) provided by investing activities	<u>(88,353)</u>	<u>127,588</u>
Net decrease in cash, cash equivalents and restricted cash	(178,479)	(1,901,218)
Cash, cash equivalents and restricted cash at beginning of year	<u>5,142,599</u>	<u>7,043,817</u>
Cash, cash equivalents and restricted cash at end of year	\$ 4,964,120	\$ 5,142,599
Supplemental non-cash disclosures:		
Obtaining a right-of-use asset in exchange for a lease liability	<u>\$ 184,361</u>	<u>\$ -</u>
Donated professional services	<u>\$ 153,000</u>	<u>\$ 96,000</u>
Donated auction items	<u>\$ 617,062</u>	<u>\$ 378,453</u>

See notes to financial statements.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE A - ORGANIZATION

Friedreich's Ataxia Research Alliance ("FARA") was incorporated under the laws of the District of Columbia as a nonprofit corporation. FARA obtained foreign entity status in Pennsylvania in 2019 and Florida in 2020. The stated purposes of FARA are to marshal and focus the resources and relationships needed to treat and cure Friedreich's Ataxia by raising funds for research, promoting public awareness and aligning scientists, patients, clinicians, government agencies, pharmaceutical companies and other organizations dedicated to treating and curing Friedreich's Ataxia.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Basis of accounting:

The accompanying financial statements of FARA have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") as applicable to not-for-profit organizations.

[2] Classification of net assets:

Resources in the financial statements are classified for accounting and reporting purposes in classes of net assets according to the existence or absence of donor-imposed restrictions. The accompanying financial statements may include the following classes of net assets:

(i) *Net assets without donor restrictions:*

Net assets without donor restrictions are used to account for funds which have not been restricted by donors and over which the Board of Directors has discretionary control.

(ii) *Net assets with donor restrictions:*

Net assets with donor restrictions are subject to donor-imposed or certain grantor-imposed restrictions. Some donor-imposed 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 donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

[3] Cash and cash equivalents:

Cash and cash equivalents include checking and money market accounts. FARA normally deposits its cash with three financial institutions.

[4] Contributions receivable:

Contributions receivable consists primarily of funds due for fund-raising events on FARA's behalf that were not remitted to FARA until the following year. No receivables are expected to remain outstanding for more than one year. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to the account receivable. FARA recorded the allowance for doubtful accounts in the amount of \$22,500 and \$0 as of December 31, 2022 and 2021, respectively.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Investments:

FARA carries investments in marketable securities with readily determinable fair market values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses and impairment loss on investment in common stock are included in the change in net assets in the accompanying statements of activities.

[6] Leases:

FARA follows the provisions of Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. It determines if an arrangement is a lease at inception. Operating leases are recorded as operating lease right-of-use ("ROU") assets and operating lease liabilities on the accompanying statement of financial position. Operating lease ROU assets and the related lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As FARA's leases do not provide an implicit rate, an incremental borrowing rate based on the information available at the commencement date or the adoption date is used as a practical expedient in determining the present value of future payments. The operating lease ROU assets exclude lease incentives and initial direct costs incurred.

FARA's policy with respect to short-term leases is to exempt such agreements from the requirements of ASC 842 and account for the associated lease cost within real estate maintenance and insurance on the schedule of functional expenses on a straight-line basis over the lease term. No right-of-use asset nor lease liability is established on FARA's statement of financial position with respect to short-term leases. Short-term leases are generally defined as with an original term of twelve months or less upon commencement.

Finance leases are recorded as finance lease ROU assets and finance lease liabilities on the accompanying statement of financial position. Finance lease ROU assets and the related lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. If an implicit rate is not available, an incremental borrowing rate based on the information available at commencement date is used as a practical expedient in determining the present value of future payments.

[7] Revenue recognition:

Contributions and grants:

Funding for FARA's activities is achieved almost entirely through foundation, corporate and other support, contributions, and in-kind contributions, including unconditional promises to give. These donations provide funding to be used to support FARA's mission. As the donors are not receiving a benefit as a result of these transactions, the donations are considered to be contributions to FARA. Some contributions require that funds be expended for a specific purpose, and are considered to be net assets with donor restrictions. There were no conditional government grants as of December 31, 2022 that will be recognized in subsequent years as costs are incurred and service requirements are met.

FARA recognizes unconditional contributions when cash, securities or other assets or an unconditional promise to give is received, and are recorded after discounting to the present value of the expected future cash flows (if the unconditional contributions are scheduled to be paid over multiple years). Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Revenue recognition: (continued)

Contributions and grants: (continued)

The CARES Act provides an employee retention credit ("CARES Employee Retention credit"), which is a refundable tax credit against certain employment taxes. From March 12, 2020 through December 31, 2020, the tax credit is equal to 50% of qualified wages up to \$10,000 or a maximum credit of up to \$5,000 per employee. From January 1, 2021 through September 30, 2021, the tax credit is equal to 70% of qualified wages up to \$10,000 during a quarter or a maximum credit of up to \$14,000 per employee (or \$7,000 per quarter).

During the fiscal year ended December 31, 2022, FARA recorded \$313,695 related to the CARES Employee Retention credit in contributions and grants revenue on FARA's statements of activities and changes in net assets.

Governmental grants:

FARA receives some government grants as discussed in the next paragraph. These grants provide funding to be used for purposes indicated in the grant agreements. As the government is not receiving a benefit as a result of these transactions, the grants are considered to be contributions to FARA. The grant agreements contain spending requirements. As these stipulations create a barrier that must be achieved, government grants are considered to be conditional contributions until such time as the barriers are overcome. Contributions from these grant agreements are therefore recognized as revenue when costs are incurred and specific service requirements are met, as required by the agreements.

In February 2021, FARA received proceeds from the U.S. Small Business Administration (the "SBA") as part of the Paycheck Protection Program ("PPP") in the amount of \$212,315. The funding was conditional on FARA using the funds to cover qualified expenditures while maintaining certain employment levels. Contributions from this agreement are therefore recognized as revenue when qualifying costs are incurred and conditions have been substantially met, as required by the agreement. During the year ended December 31, 2021, \$212,315 of the grant was used for qualified expenditures, including payroll and benefits, and thus was recognized as governmental grants revenue on the statement of activities and changes in net assets. In October 2021, the SBA acknowledged that FARA met all the requirements for the grants.

Special events:

FARA earns revenue from contracts with customers through special events.

Fee-for-service revenue related to special events is recognized when or as the performance obligations in each contract are satisfied for the amount of consideration FARA expects to be entitled to receive for the related service.

FARA records special events revenue equal to contribution revenue less the cost of direct benefits to donors which is included in special events revenue on the statement of activities and changes in net assets. The recognition of revenue is conditional on the event taking place, as this is the point in time when the performance obligation of hosting the event occurs, and attendees can no longer request a refund for their ticket purchases. The amounts are collected at the time of ticket purchase and are included in deferred revenue until recognized. As of December 31, 2022 and 2021, there were conditional contributions associated with special events of \$11,490 and \$22,360, respectively, which is included in deferred revenue on the statement of financial position. There were no other contract assets or contract liabilities at either December 31, 2022 or December 31, 2021, respectively.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Revenue recognition: (continued)

In-kind:

FARA receives various forms of gifts-in-kind, which are contributions of nonfinancial assets including professional services or auction items. Donated services are recognized in the financial statements if they (i) create or enhance financial assets or require specialized skills, (ii) are provided by individuals possessing these skills, and (iii) would typically need to be acquired if not provided by donation. The donated services are valued at the estimated prevailing rate for like services in the principal marketplace for use at the time the services are provided and reported as an expense concurrently as utilized. During the years ended December 31, 2022 and 2021, FARA recorded contributed legal and communication professional services of \$153,000 and \$96,000, respectively.

Contributed auction items are recorded at the proceeds for which they were sold, which amounted to \$617,062 and \$378,453 for the years ended December 31, 2022 and 2021, respectively.

Contributed materials and services are reflected as revenue in the accompanying statements of activities and changes in net assets. The related offsetting expense is recorded in the same amount on the statement of activities and changes in net assets. In addition to those included above, FARA also receives donated services from unpaid volunteers. These services do not meet the criteria for recognition as contributed services and are therefore not included in the accompanying financial statements.

[8] Concentrations of credit risk:

Cash deposits that potentially subject FARA to concentrations of credit risk consist of cash accounts not covered by FDIC insurance. At December 31, 2022, \$4,213,895 of FARA's bank balances of \$4,964,120 was exposed to credit risk. At December 31, 2021, \$4,142,599 of FARA's bank balances of \$5,142,599 was exposed to credit risk.

[9] Paycheck Protection Program:

FARA received PPP loans under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. FARA has elected to account for the PPP loans as conditional contributions under the FASB's Accounting Standards Update ("ASU") 2018-08. The loan agreements include provisions for loan forgiveness based on measurable performance barriers related to staffing and salary levels and qualifying expenditures. Any amounts not forgiven are required to be repaid. PPP funds was recognized as contribution income, as the conditions on which they depend were substantially met.

[10] Federal tax status:

The Internal Revenue Service has classified FARA as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Accounting for uncertainty in income taxes clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. Management has analyzed the tax positions taken by FARA, and has concluded that as of December 31, 2021, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. FARA recognizes accrued interest and penalties associated with uncertain tax positions, if any. There were no income tax related interest or penalties recorded for the years ended December 31, 2022 and 2021.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

[12] Functional expenses:

The costs of providing FARA's program and other supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, the expenses directly related to the program are combined with allocations of certain common costs of FARA which have been allocated based on estimates made by management. Common costs allocated are payroll, taxes and benefits, as well as rent, utilities, legal, and other professional service fees. Payroll, taxes and benefits, legal, and other professional service fees are allocated based on estimates of time and effort. Rent and utilities are allocated on a square-footage basis.

[13] Adoption of new accounting pronouncements:

In February 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. ASU 2016-02 establishes principles to present transparent information about assets and liabilities that arise from lease arrangements. The guidance results in a more faithful representation of the rights and obligations arising from leases by requiring lessees to recognize lease assets and lease liabilities on their statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. This guidance, as amended, has been codified as ASC 842. FARA adopted ASU 2016-02 on January 1, 2022 (see Note F). As a result of the adoption of the new lease accounting guidance, FARA recognized on January 1, 2022 (a) a lease liability of \$184,361, which represented the present value of the remaining lease payments of \$214,318, discounted using an incremental borrowing rate of 8%, and (b) ROU assets of \$184,361. This standard did not have a material impact on FARA's statement of financial position or cash flows from operations and had no impact on its statements of activities and changes in net assets. The most significant impact was the recognition of ROU assets and lease obligation for an operating lease for fiscal year 2022.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. For each category of contributed nonfinancial assets recognized, not-for-profit organization will need to disclose: (i) qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used; (ii) the not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; (iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; (iv) the valuation techniques and inputs used to arrive at a fair value measure, if it is a market in which the recipient entity is prohibited by a donor imposed restriction from selling or using the contributed nonfinancial assets. The standard requires the amendments to be applied on a retrospective basis in the year of adoption. The ASU is effective for annual reporting periods beginning after June 15, 2021, and accordingly, FARA adopted this pronouncement for its fiscal year ended December 31, 2022 on the retrospective basis. Analysis of the various provisions of the standard resulted in no significant changes in the way FARA recognized in-kind donations and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

[14] Reclassification:

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE C - LIQUIDITY

The following tables reflect FARA's financial assets available for general expenditures within one year as of December 31, 2022 and 2021 after accounting for assets with donor restrictions. Financial assets are considered unavailable when illiquid, not convertible to cash within one year, or subject to donor restrictions not expected to be released within one year.

	As of December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Liquidity resources:			
Cash and cash equivalents	\$ 3,279,967	\$ 1,684,153	\$ 4,964,120
Contributions receivable	369,612	-	369,612
Investment	1,728,750	-	1,728,750
Contracted restricted resources to be received in 2023 for existing commitments as of December 31, 2022	-	1,195,459	1,195,459
Assets without commitments as of December 31, 2022	-	(898,103)	(898,103)
Total liquidity resources	5,378,329	1,981,509	7,359,838
Liquidity liabilities and commitments:			
Current liabilities including leases	(334,044)	-	(334,044)
2023 Fundraising commitments	(11,490)	(130,000)	(141,490)
2023 Program commitments - Ataxian Athlete	-	(5,775)	(5,775)
2023 Staffing commitments to support research and special projects	-	(477,316)	(477,316)
2023 Research and grant program commitments:			
Institutional research programs	-	(374,462)	(374,462)
Directed research projects	(638,878)	(993,956)	(1,632,834)
Grant program and patient registry & CCRN in FA	(2,052,847)	-	(2,052,847)
Total 2023 Research and grant program commitments	(2,691,725)	(1,368,418)	(4,060,143)
Total liquidity liabilities and commitments	(3,037,259)	(1,981,509)	(5,018,768)
Remaining assets available for general expenditures within one year	\$ 2,341,070	\$ -	\$ 2,341,070

FARA structures its financial assets to be available as general expenditures and research program commitments come due. Assets with donor restrictions are released when restrictions have been satisfied. Research program commitments assume that certain benchmarks or other criteria are met. FARA invests excess cash in short-term investments (money market funds) and maintains an unrestricted investment reserve (investments) in highly liquid marketable securities.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE C - LIQUIDITY (CONTINUED)

	As of December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Liquidity resources:			
Cash and cash equivalents	\$ 2,555,336	\$ 2,587,262	\$ 5,142,598
Contributions receivable	259,819	-	259,819
Investments	1,976,866	-	1,976,866
Contracted restricted resources to be received in 2022 for existing contracted commitments as of December 31, 2021	-	2,568,260	2,568,260
Assets without commitments as of December 31, 2021	-	(1,094,664)	(1,094,664)
Total liquidity resources	4,792,021	4,060,858	8,852,879
Liquidity liabilities and commitments:			
Current liabilities	(261,148)	-	(261,148)
2022 Fundraising commitments	-	(200,590)	(200,590)
2022 Program commitments - ambassador training	-	(3,000)	(3,000)
2022 Staffing commitments to support research and special projects	-	(555,674)	(555,674)
2022 Research and grant program commitments:			
Institutional research programs	-	(2,466,000)	(2,466,000)
Directed research projects	(673,782)	(723,094)	(1,396,876)
Grant program and patient registry & CCRN in FA	(1,649,730)	(112,500)	(1,762,230)
Total 2022 Research and grant program commitments	(2,323,512)	(3,301,594)	(5,625,106)
Total liquidity liabilities and commitments	(2,584,660)	(4,060,858)	(6,645,518)
Remaining assets available for general expenditures within one year	<u>\$ 2,207,361</u>	<u>\$ -</u>	<u>\$ 2,207,361</u>

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE D - CASH AND CASH EQUIVALENTS

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sums to the total of the same such amounts shown in the statement of cash flows as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 3,279,967	\$ 2,555,336
Cash restricted for donor restricted purposes	<u>1,684,153</u>	<u>2,587,263</u>
	<u>\$ 4,964,120</u>	<u>\$ 5,142,599</u>

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2: Inputs to the valuation methodology include (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in inactive markets; (c) inputs other than quoted prices that are observable for the asset or liability; or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Assets utilizing Level 3 inputs are funds held in trust by others.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets.

As of December 31, 2022 and 2021, FARA's investments consist of mutual funds, which are valued at the closing market price on the stock exchange where it is traded, and are considered to be Level 1 on the aforementioned fair value hierarchy.

There were no Level 2 or Level 3 assets at December 31, 2022 or 2021.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE F - LEASES

FARA has a lease agreement that has been recorded in accordance with ASC 842 as an operating lease.

The liabilities under the operating lease are recorded at the present value of the minimum lease payments. Lease expense of \$57,152, relating to the operating lease, is included in management and general on the statement of activities and changes in net assets. There are no costs related to variable lease components.

The following maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of December 31, 2022 is approximately as follows:

<u>Year Ending December 31,</u>	
2023	\$ 57,082
2024	58,026
2025	<u>43,520</u>
	158,628
Less: present value discount	<u>(16,731)</u>
Total	<u>\$ 141,897</u>

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	<u>2022</u>	<u>2021</u>
Multi-year staff growth for research and special projects	\$ 1,188,947	\$ 1,629,631
Research and grant programs	334,431	754,042
Future fundraising events	155,000	200,590
Ambassador training	-	3,000
Ataxian Athlete Initiative	<u>5,775</u>	<u>-</u>
	<u>\$ 1,684,153</u>	<u>\$ 2,587,263</u>

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from donor restriction by incurring expenses satisfying the restricted purpose specified by the donors as follows for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Research, conferences, and grant programs	\$ 4,593,587	\$ 3,595,432
Payroll Protection Program	-	212,315
Ataxian Athlete Initiative	9,226	17,400
Patient engagement, advocacy and awareness	38,747	13,650
Ambassador training	3,000	2,000
Future fundraising events	<u>200,590</u>	<u>-</u>
Satisfaction of purpose and time restrictions:		
Multi-year staff growth for research and special projects	<u>440,684</u>	<u>429,771</u>
	<u>\$ 5,285,834</u>	<u>\$ 4,270,568</u>

NOTE H - SPECIAL EVENTS

FARA holds many special events during the year in an effort to raise contributions. During the years ended December 31, 2022 and 2021, FARA hosted the Energy Ball in Tampa, Florida, which raised approximately 16% of FARA's total revenues for 2022 and 20% in 2021. See Note N for the impact of the COVID-19 pandemic on special events.

NOTE I - RELATED PARTIES

During the years ended December 31, 2022, and 2021, Board members provided \$3,839,961 and \$1,830,938 in revenue and support to FARA, respectively. This excludes the value of donated services described in Note B. The increase in Board member contributions from 2021 to 2022 was due to contributions to support the Institutional Research Programs described in Note K, support for Directed Research Projects, and an overall increase in Board member giving.

NOTE J - RESEARCH AND PROGRAM COMMITMENTS

FARA has committed to funding ongoing research and grant programs in 2023, assuming that certain benchmarks or other criteria are met by the grant recipients by a certain point in time. As of December 31, 2022, FARA has committed a total of \$3,685,680 for 2023 from the Grant Program and Directed Projects. The grants will fund various research projects, including drug discovery, gene and stem cell therapy, mechanism or pathway of disease, biomarker discovery and validation, cardiac research and the Collaborative Clinical Research Network ("CCRN") natural history and clinical outcome measures study. This is in addition to commitments of \$374,462 for Institutional Research described in Note K. All commitments as of December 31, 2022 are classified as with or without donor restrictions in Note C.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE K - INSTITUTIONAL RESEARCH PROGRAMS

FARA has identified opportunities to fund research at institutions where there are multiple investigators with an expertise and commitment to Friedreich's Ataxia ("FA") research and/or opportunity to leverage technologies, innovation or new growth to the FA community. By establishing these institutional funding programs FARA is able to promote collaboration and synergy across basic, translational and clinical research, provide a longer-term commitment for research, attract new investigators, and leverage the institutions resources and engagement.

The FA Center of Excellence ("COE") was established at the Children's Hospital of Philadelphia/University of Pennsylvania in 2014 with the Hamilton & Finneran families making a multi-year commitment to FARA and the COE. The COE is a translational research and clinical care center devoted to Friedreich Ataxia: expediting basic science and drug discovery findings to new treatments and dedicating resources to clinical research and care to further understand the disease, inform drug development and improve outcomes for individuals living with FA. FARA has maintained this funding partnership with the CureFA Foundation (established by the Hamilton and Finneran families) to advance research through the COE. In 2020, FARA, in partnership with the CureFA Foundation, signed an agreement with the Children's Hospital of Philadelphia to contribute funds for COE research over the next three years. The agreement called for a charitable gift in the amount of \$425,000 per year for 3 years (through 2022). As of December 31, 2022, the commitment by the CureFA Foundation and payment obligations for the COE for all three years have been met and recorded on FARA's financial statements.

The Friedreich's Ataxia Accelerator ("FAA") at the Broad Institute of MIT and Harvard was established in 2020. The FAA is supporting the work of multiple research labs as they apply their expertise to the discovery of new approaches that could lead to novel treatments for FA. In June 2020, FARA, in partnership with the CureFA Foundation and EndFA, signed an agreement with the Broad Institute to contribute funds for FA research over the next three years. The agreement called for a charitable gift in the amount of \$1,841,000 per year for 3 years (through 2022). As of December 31, 2022, FARA has received \$5,523,000 from cofunding partners towards the 2020, 2021, and 2022 commitments to the Broad Institute and FARA has met payment obligations of \$5,523,000. In 2022, an amendment to the original agreement was approved and signed which commits existing and supplemental funding for a single new project, "At-home Quantitative Motor Phenotyping in Friedreich's Ataxia." The additional funding commitment of \$374,462 extends through 2023.

NOTE L - PATIENT REGISTRY AND CCRN

The Friedreich's Ataxia Global Patient Registry ("FAGPR") is the only worldwide registry of Friedreich's Ataxia patients. The goals of the FAGPR are to collect information on all FA patients in one registry, to develop the registry into a powerful resource for research, and to engage the FA community in studies aimed at advancing our knowledge of FA and the treatments being developed. FARA partners with international patient advocacy organizations through a Governance Board to ensure multi-stakeholder engagement and oversight of the FAGPR. In 2022, more than 1,000 individuals with FA provided updated informed consent and clinical data, and the FAGPR was utilized to enroll several clinical trials and research studies.

The Collaborative Clinical Research Network in Friedreich's Ataxia ("CCRN in FA") is an international network of clinical research centers that work together to advance treatments and clinical care for individuals with Friedreich's Ataxia. Each network site is provided funding to participate in a longitudinal natural history study and to:

- Identify and validate clinical outcome measures and biomarkers in FA that are necessary for clinical trials;
- Facilitate the implementation and delivery of clinical trials;
- Share data and resources to advance treatments for FA;
- Define best clinical practices for FA and provide the highest level of clinical care for patients.

FRIEDREICH'S ATAXIA RESEARCH ALLIANCE

Notes to Financial Statements December 31, 2022 and 2021

NOTE L - PATIENT REGISTRY AND CCRN (CONTINUED)

In 2022, there were 14 sites, 9 in the United States, 2 in Canada, 1 in Australia, 1 in New Zealand and 1 in India. More than 1,400 individuals with FA have been enrolled in a natural history and the data and learnings being shared broadly through more than 25 peer-reviewed publications and the Friedreich's Ataxia Integrated Clinical Database ("FA-ICD"). The FA-ICD represents a collaborative partnership between the FARA and Critical Path Institute ("C-Path"), with a goal of expanding the FA-ICD platform by engaging with other data contributors to secure additional datasets. FA-ICD is designed to catalyze and accelerate FA research and drug development by curating and standardizing FA clinical trial and natural history data and making this data publicly available to qualified researchers. This dataset was shared with more than 12 research groups. In 2022, one research partner developing a new treatment for FA was able to use this data as part a regulatory submission to the FDA in requesting approval of medication for FA.

NOTE M - EMPLOYEE BENEFIT PLAN

On January 1, 2017, FARA adopted a 401(k) profit sharing plan and trust that covers all qualified employees. The plan provides for a discretionary profit-sharing contribution, as well as a matching employer contribution. The Plan provides for matching contributions up to 3% on deferrals from eligible employees. FARA made employer matching contributions of \$29,768 and \$31,764 during the years ended December 31, 2022 and 2021, respectively.

NOTE N - RISKS AND UNCERTAINTIES

FARA maintains its cash in bank accounts in amounts which, at times, may exceed federally insured limits. FARA has not experienced any losses in such accounts, and management believes that FARA is not exposed to any significant risk of loss on these accounts.

FARA has previously recognized the impact of the COVID-19 pandemic on operations and programs in 2020 and the first half of 2021, with a return to some in-person events in the second half of 2021. In addition to the impact on event registration revenues during this time, FARA funded research programs were also impacted when research centers shut down globally extending into 2021. The combination of lab closures and delayed starts to new grants resulted in increased grant commitments and restricted revenues carried forward into 2022.

In 2022, FARA experienced no material impact on operations or programs due to COVID-19. However, there were lingering effects on the research grant programs due to staffing and supply chain issues. In response, FARA has launched several new grant and award initiatives for 2023 including a Graduate Research Fellowship and the FARA Fellow Program to support and grow engagement of students and early career level scientists in the FA research community.

NOTE O - SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 1, 2023, which is the date the financial statements were available to be issued.