THE PARKINSON'S INSTITUTE

DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The Parkinson's Institute

Independent Auditors' Report
and Financial Statements

Independent Auditors' Report

BOARD OF DIRECTORS
THE PARKINSON'S INSTITUTE
Sunnyvale, California

Report on the Financial Statements

We have audited the accompanying financial statements of **THE PARKINSON'S INSTITUTE** (the Institute), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Parkinson's Institute as of December 31, 2016, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Institute's 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Jose, California
September 29, 2017

The Parkinson's Institute

Statement of Financial Position

December 31, 2016 (with comparative totals as of December 31, 2015)

	2016	2015
Assets		
Cash and cash equivalents	$ 2,407,734	$ 2,734,660
Accounts receivable, net	197,801	160,807
Contributions and pledges receivable, net	688,202	173,563
Prepaid expenses and other assets	462,092	401,863
Property, equipment and improvements, net	86,485	122,938
Total assets	$ 3,842,314	$ 3,593,831
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 385,318	$ 466,935
Accrued liabilities	409,154	461,366
Deferred revenue	718,291	570,764
Total liabilities	1,512,763	1,499,065
Net Assets		
Unrestricted	(41,302)	695,685
Temporarily restricted	2,368,353	1,396,581
Permanently restricted	2,500	2,500
Total net assets	2,329,551	2,094,766
Total liabilities and net assets	$ 3,842,314	$ 3,593,831

See accompanying notes to financial statements.

The Parkinson's Institute

Statement of Activities

Year Ended December 31, 2016 (with comparative totals for the year ended December 31, 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue:					
Contributions	$ 4,462,809	$ 1,389,724		$ 5,852,533	$ 5,654,160
Grants, net		728,053		728,053	445,514
Pharmaceutical research collaboration	1,262,447			1,262,447	430,236
Government research				-	405,079
Corporate and other research	93,274	5,000		98,274	286,014
Patient fees, net	819,522			819,522	646,180
Special events		115,457		115,457	560,844
Drug study income	310,816			310,816	133,616
Interest income	756			756	453
Miscellaneous	231,650			231,650	12,496
Net assets released from restrictions	1,266,462	(1,266,462)		-	-
Total support and revenue	8,447,736	971,772		9,419,508	8,574,592
Expenses:					
Program services					
Basic and translational research	3,588,358			3,588,358	2,889,652
Clinical research and studies	575,087			575,087	907,983
Clinic	1,972,693			1,972,693	1,798,575
Outreach and education	88,669			88,669	72,859
Total program services	6,224,807			6,224,807	5,669,069
Supporting services					
Management and general	2,149,566			2,149,566	2,125,122
Development and special events	810,350			810,350	925,786
Total supporting services	2,959,916			2,959,916	3,050,908
Total expenses	9,184,723			9,184,723	8,719,977
Change in net assets	(736,987)	971,772		234,785	(145,385)
Net Assets, beginning of year	695,685	1,396,581	$ 2,500	2,094,766	2,240,151
Net Assets, end of year	$ (41,302)	$ 2,368,353	$ 2,500	$ 2,329,551	$ 2,094,766

See accompanying notes to financial statements.

The Parkinson's Institute

Statement of Functional Expenses

Year Ended December 31, 2016 (with comparative totals for the year ended December 31, 2015)

	2016									2015
	Basic and Translational Research	Clinical Research and Studies	Clinic	Outreach and Education	Total Program Services	Management and General	Development and Special Events	Total Supporting Services	Total	Total
Labor	$ 920,618	$ 231,979	$ 1,061,951	$ 13,776	$ 2,228,324	$ 980,389	$ 358,518	$ 1,338,907	$ 3,567,231	$ 3,462,320
Benefits	326,269	82,214	376,357	4,882	789,722	347,452	127,059	474,511	1,264,233	1,175,500
Total labor cost	1,246,887	314,193	1,438,308	18,658	3,018,046	1,327,841	485,577	1,813,418	4,831,464	4,637,820
Project/grant supplies	304,738	344	89,787		394,869	60,145	1,678	61,823	456,692	566,831
Travel	15,941	1,353	6,453	267	24,014	11,636	12,052	23,688	47,702	27,688
Equipment	2,445		8,808		11,253				11,253	24,642
Outside services/subcontracts	817,410	60,368	123,466	51,285	1,052,529	250,054	79,741	329,795	1,382,324	804,428
Animals facility	46,528				46,528				46,528	43,033
Special events					-		101,255	101,255	101,255	208,738
Insurance			8,029		8,029	134,019		134,019	142,048	149,402
Legal	245,114				245,114	49,662		49,662	294,776	188,053
Postage/printing/freight	1,562	57	6,835		8,454	5,668	25,985	31,653	40,107	70,291
Facility allocation	794,646	177,947	248,270	17,886	1,238,749	210,968	79,037	290,005	1,528,754	1,416,212
Other	98,849	10,083	36,111		145,043	90,669	24,050	114,719	259,762	537,068
Total expenses before depreciation and amortization	3,574,120	564,345	1,966,067	88,096	6,192,628	2,140,662	809,375	2,950,037	9,142,665	8,674,206
Depreciation	8,629	8,629	4,541	454	22,253	4,540	909	5,449	27,702	31,415
Leasehold amortization	5,609	2,113	2,085	119	9,926	4,364	66	4,430	14,356	14,356
Total Expenses	$ 3,588,358	$ 575,087	$ 1,972,693	$ 88,669	$ 6,224,807	$ 2,149,566	$ 810,350	$ 2,959,916	$ 9,184,723	$ 8,719,977

See accompanying notes to financial statements.

The Parkinson's Institute

Statement of Cash Flows

Year Ended December 31, 2016 (with comparative totals for the year ended December 31, 2015)

	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	$ 234,785	$ (145,385)
Adjustments to reconcile change in net assets to cash (used) provided by operating activities:		
Depreciation and amortization	42,058	45,771
Changes in operating assets and liabilities:		
Accounts receivable	(36,994)	225,571
Contributions and pledges receivable	(514,639)	(129,009)
Prepaid expenses and other assets	(60,229)	(260,794)
Accounts payable	(81,617)	187,550
Accrued liabilities	(52,212)	(1,847)
Deferred revenue	147,527	286,761
Cash (used) provided by operating activities	(321,321)	208,618
Cash Flows from Investing Activities:		
Purchase of equipment	(5,605)	(3,197)
Cash used by investing activities	(5,605)	(3,197)
Net Change in Cash and Cash Equivalents	(326,926)	205,421
Cash and Cash Equivalents, beginning of year	2,734,660	2,529,239
Cash and Cash Equivalents, end of year	$ 2,407,734	$ 2,734,660

Supplemental Disclosure of Cash Flow Information:

No payments for interest or income taxes were made during 2015 and 2014.

See accompanying notes to financial statements.

Note 1 - Description of the Organization:

The Parkinson's Institute (the Institute) was incorporated in 1988 as a California nonprofit corporation. The Institute's goal is to eradicate Parkinson's disease through clinical and basic research. Funds are received from contributions, as well as from private and government grants. In addition, the Institute earns revenue by providing services to patients with Parkinson's disease and conducting medical research on behalf of other organizations. The Institute is headquartered in Sunnyvale, California.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The Institute's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

b. Description of Net Assets

The Institute reports its financial position and operating activities in three classes of net assets:

Unrestricted Net Assets – the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations, including research and patient care as well as supporting services.

Temporarily Restricted Net Assets – the portion of net assets which use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Institute.

Permanently Restricted Net Assets – the portion of net assets which use is permanently limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by actions of the Institute.

c. Cash Equivalents

For purposes of the Statement of Cash Flows, the Institute considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

d. Receivables

Accounts and other receivables are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is maintained, based on past experience and other circumstances.

Pledges receivable represent unconditional commitments by donors to contribute money over a specified time frame to the Institute. These pledges are recognized as revenue and receivables in the period the Institute is notified in writing of the pledge.

e. Property, Equipment and Improvements

Property, equipment and leasehold improvements are recorded at cost, if purchased, or at fair value at date of donation, if donated. Depreciation on property and equipment is computed over useful lives of three to fifteen years on the straight-line method. Leasehold improvements are amortized over the term of the lease or the estimated service lives of the assets, whichever is shorter.

All purchases of property and equipment funded by grants and contracts are expensed as incurred. Unless otherwise specified in the grant, title to equipment purchased with restricted awards may vest with the grantor. Total equipment purchases funded by grants and contracts and expended during the years ended December 31, 2016 and 2015 were $11,252 and $24,642, respectively.

f. Revenue Recognition

Contributions are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to the Institute. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Non-cash donations are recorded at the fair value of the gift at the date of the donation.

The Institute records contribution revenue and a related expense for certain donated services, at the fair value of those services, only if the services create or enhance non-financial assets or require specialized skills that would need to be purchased if not donated. General volunteer time does not meet that criteria and has not been recorded.

Government funded and other grant/contract funded research revenue for cost-reimbursement based grants and contracts (including pharmaceutical research collaboration) is recognized as related expenses are incurred. Refunds are offset against revenue when made. Cash received in advance of expenditures is classified as deferred revenue. Drug study income is recognized in the period the study's activities were performed.

Patient revenue is recorded when the services are provided, on the basis of usual and customary charges. The Institute provides services to beneficiaries of the federal Medicare program at amounts less than customary charges. Allowances are provided for amounts not anticipated to be collected based on experience.

Royalty income is derived from licensing of certain intellectual properties and is recognized on an accrual basis in accordance with the substance of the underlying royalty agreements.

g. Functional Classification of Expenses

The costs of providing various program services and managing the Institute have been summarized on a functional basis in the Statement of Activities. Accordingly, indirect costs have been allocated, principally on a direct cost basis, among the programs and supporting services.

h. Special Events

Special event revenue is recognized when the event is held. Direct fundraising costs for special events are expensed as incurred and presented in the Statement of Functional Expenses at their gross amount. Employee costs incurred for these events are included in development labor expenses.

i. Marketing Costs

Advertising and marketing costs are expensed as incurred.

j. Tax Exempt Status

The Institute has been granted tax exempt status by the Internal Revenue Service and California Franchise Tax Board under Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code. The Institute has been determined to not be a private foundation.

As of December 31, 2016 and 2015, management evaluated the Institute's tax positions and concluded the Institute has maintained its tax-exempt status and has taken no uncertain tax positions that would require adjustment to the financial statements.

k. Use of Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required to make 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, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

l. Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not in sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

m. Subsequent Events

The Institute evaluated subsequent events from December 31, 2016 through September 29, 2017, the date these financial statements were available to be issued. Except as discussed in Note 6, there were no material subsequent events, the nature of which would require disclosure.

n. Recent Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* which affects any entity (public, private and not-for-profit) that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates Topic 606 as indicated above. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, an entity follows a five-step process. The guidance is effective for annual reporting periods beginning after December 15, 2018. Early adoption is not permitted. The Institute does not believe the effect of adoption of this standard will have a material impact on its financial statements.

In February 2016, the FASB issued ASU 2016-02—*Leases (Topic 842)*. Under the ASU, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months for the rights and obligations created by those leases. The ASU is effective for fiscal years beginning after December 15, 2019. Early application will be permitted for all organizations. The Institute is currently assessing the impact the adoption this ASU will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14 – *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The amendments in this ASU set forth the FASB's changes to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in the ASU is permitted. The Institute is currently evaluating the impact of this pronouncement on its financial statements.

Note 3 - Accounts Receivable:

Accounts receivable consist of the following as of December 31:

	2016	2015
Due from the federal government, states, foundations, or pass-through entities for research grants	$ 120,784	$ 76,047
Amounts due from patients or their insurance carriers	107,017	114,760
	227,801	190,807
Less allowance for doubtful accounts	(30,000)	(30,000)
	$ 197,801	$ 160,807

Additionally, the Institute has a royalty receivable in the amount of $90,000. The Institute has reserved 100% of the receivable based on review of the licensee's financial position.

Note 4 - Contributions and Pledges Receivable:

Contributions receivable at December 31, 2016 are expected to be collected as follows:

2017	$	638,202
2018		50,000
Total	$	688,202

Note 5 - Property, Equipment and Improvements:

Property, equipment and improvements consist of the following as of December 31:

		2016		2015
Research and clinic equipment	$	2,160,582	$	2,160,582
Office furniture and equipment		747,185		741,580
Leasehold improvements		253,346		253,346
Vehicles				18,400
		3,161,113		3,173,908
Less accumulated depreciation and amortization		(3,074,628)		(3,050,970)
	$	86,485	$	122,938

Depreciation expense and leasehold improvements amortization amounted to $42,058 and $45,771 for the years ended December 31, 2016 and 2015, respectively.

Note 6 - Commitments and Contingencies:

Leases

The Institute leases its facility under a non-cancellable lease that was set to expire in August 2017. Effective September 1, 2017, the lease was extended through February 2019. Anticipated future minimum lease payments are as follows:

2017	$ 1,329,600
2018	2,181,600
2019	370,800
Total	$ 3,882,000

Rent expense was approximately $1,044,000 and $1,041,000 for 2016 and 2015, respectively.

In addition to the minimum rental payments discussed above, the Institute is obligated to pay all costs of operating the facility including utilities, property taxes, insurance, repairs and maintenance.

Federal Grants

The Institute has received federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

Note 7 - Major Contributions:

For the years ending December 31, 2016 and 2015, three and two donors accounted for approximately 47% and 49%, respectively, of grants and contribution revenue.

Note 8 - Employee Benefit Plan:

The Institute provides a defined contribution (Section 403(b)) plan for all full-time employees which allows employees to invest contributions in certain permitted annuity contracts. The Institute's defined contribution Section 401(a) plan allows the Institute to make discretionary contributions on behalf of eligible employees. The Institute elected to make a discretionary contribution in 2016 and 2015 of a match of up to $3,000 for eligible employees amounting to $46,802 and $60,680.

Note 9 - Temporarily and Permanently Restricted Net Assets:

Temporarily restricted net assets are restricted by donors as described below:

	2016	2015
Restricted to purpose:		
Basic and translational research	$ 564,634	$ 741,190
Clinical research and studies	122,279	189,951
Clinic and Outreach	431,440	447,740
Facility relocation	1,250,000	
Other		17,700
	$ 2,368,353	$ 1,396,581

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors, including the passage of time. Net assets were released from restrictions as follows for the years ended December 31:

	2016	2015
Purpose restrictions accomplished:		
Basic and translational research	$ 891,534	$ 1,164,738
Clinical research and studies	141,147	299,870
Clinic and Outreach	100,624	133,139
Special events	115,457	562,624
Other	17,700	2,300
	$ 1,266,462	$ 2,162,671

Permanently restricted net assets consist of amounts held in perpetuity, the income of which is expendable for operations when appropriated by management.

Note 10 - Concentration of Credit Risk:

The Institute has defined its financial instruments which are potentially subject to credit risk as cash and accounts receivable.

From time to time, the Institute will have cash deposits in excess of federally insured limits. Management believes that, based upon the strength of its primary depository bank, the Institute is not exposed to any significant credit risk. Patient receivables are due from various individuals and insurance companies, which mitigate the risk associated therein. An allowance for doubtful accounts is also maintained. Contract receivables are due from various governmental agencies.

Significant funding for operations comes from various government sources and is, therefore, susceptible to governmental budgetary constraints and limitations.

Note 11 - Related Party Transactions:

A member of the Institute's Board of Directors is a partner in a law firm (the firm) that provides legal services to the Institute. The Institute has an agreement whereby the firm provides legal services pro bono. In return the Institute agrees to pay the firm a fixed percentage of the Institute's net revenue for royalty sales filed or prosecuted by the firm. No payments relating to the royalty agreement were due to the firm in 2016.

An executive at the Institute is related to an officer of a company that is a subtenant of the Institute. The subtenant pays market rate rent as benchmarked against similar properties in the building location and pro-rata share of the general building and laboratory expenses. The tenant license transaction was reviewed and approved by the Board of Directors as part of the Institute's Conflict of Interest policy. At December 31, 2016, the subtenant owed the Institute $21,085.