

MYELIN REPAIR FOUNDATION, INC.

JUNE 30, 2011



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# **Myelin Repair Foundation, Inc.**

## **Independent Auditors' Report and Financial Statements**

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**Independent Auditors' Report**

THE BOARD OF DIRECTORS  
MYELIN REPAIR FOUNDATION, INC.  
Saratoga, California

We have audited the accompanying statement of financial position of **MYELIN REPAIR FOUNDATION, INC. (the Foundation)** as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Myelin Repair Foundation, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



San Jose, California  
November 10, 2011

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# Myelin Repair Foundation, Inc.

## Statement of Financial Position

June 30, 2011

### Assets

Cash and cash equivalents	\$ 6,717,698
Unconditional promises to give, net	5,938,402
Prepaid expenses	97,415
Other assets	36,679

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Total assets	\$ 12,790,194
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### Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 495,102
Deferred revenues	203,333

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Total liabilities	698,435
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### Net Assets:

Unrestricted	6,153,357
Temporarily restricted	5,938,402

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Total net assets	12,091,759
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Total liabilities and net assets	\$ 12,790,194
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The accompanying notes are an integral part of these statements.

# Myelin Repair Foundation, Inc.

## Statement of Activities

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue:</b>			
Contributions and Grants	\$ 1,510,991	\$ 115,000	\$ 1,625,991
Investment income	26,870		26,870
Other income	1,860		1,860
Net assets released from restrictions	1,488,111	(1,488,111)	
<b>Total revenue and support</b>	<b>3,027,832</b>	<b>(1,373,111)</b>	<b>1,654,721</b>
<b>Expenses:</b>			
Research program services:			
Research grants	2,328,000		2,328,000
Research program expenses	1,695,906		1,695,906
<b>Total research program services</b>	<b>4,023,906</b>		<b>4,023,906</b>
Supporting services:			
Management	514,757		514,757
Fundraising	968,765		968,765
<b>Total supporting services</b>	<b>1,483,522</b>		<b>1,483,522</b>
<b>Total expenses</b>	<b>5,507,428</b>		<b>5,507,428</b>
<b>Change in Net Assets</b>	<b>(2,479,596)</b>	<b>(1,373,111)</b>	<b>(3,852,707)</b>
<b>Net Assets, beginning of year</b>	<b>8,632,953</b>	<b>7,311,513</b>	<b>15,944,466</b>
<b>Net Assets, end of year</b>	<b>\$ 6,153,357</b>	<b>\$ 5,938,402</b>	<b>\$ 12,091,759</b>

The accompanying notes are an integral part of these statements.

**Myelin Repair Foundation, Inc.**  
**Statement of Functional Expenses**

*Year Ended June 30, 2011*

	Program Services	Supporting Services		Total
	Research	Management	Fundraising	
Research grants	\$ 2,328,000			\$ 2,328,000
Salaries	302,970	\$ 124,698	\$ 465,251	892,919
Employee benefits and payroll taxes	104,002	54,032	154,039	312,073
<b>Total salaries and related expenses</b>	<b>406,972</b>	<b>178,730</b>	<b>619,290</b>	<b>1,204,992</b>
Professional services	399,685	128,896	175,963	704,544
Contract research	355,681			355,681
Patent expenses	257,195			257,195
Annual research meetings	180,342			180,342
Rent		91,581		91,581
Travel and meals	39,698	25,041	17,531	82,270
Website maintenance expense			57,941	57,941
Special events			57,862	57,862
IT Expense	47,685			47,685
Office expense	543	26,224	696	27,463
Marketing supplies		3,421	18,848	22,269
Telecommunications	1,420	16,355	3,811	21,586
Depreciation		18,037		18,037
Other	2,900	8,779	4,502	16,181
Seminars and conferences	3,785		9,593	13,378
Repairs and maintenance		8,055		8,055
Insurance		6,080		6,080
Fundraising expenses		886	2,708	3,594
Postage and delivery		2,672	20	2,692
<b>Total expenses</b>	<b>\$ 4,023,906</b>	<b>\$ 514,757</b>	<b>\$ 968,765</b>	<b>\$ 5,507,428</b>

The accompanying notes are an integral part of these statements.

# Myelin Repair Foundation, Inc.

## Statement of Cash Flows

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*Year Ended June 30, 2011*

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**Cash Flows from Operating Activities:**

Change in net assets	\$ (3,852,707)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	18,037
Changes in operating assets and liabilities:	
Unconditional promises to give	7,986,111
Prepaid expenses	147,031
Other assets	30,256
Accounts payable and accrued expenses	110,541
Deferred revenues	(88,440)

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Net cash provided by operating activities 4,350,829

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**Cash Flows from Investing Activities:**

Net decrease in investments	622,398
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Net cash provided by investing activities 622,398

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**Net Change in Cash** 4,973,227

**Cash and Cash Equivalents, beginning of year** 1,744,471

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**Cash and Cash Equivalents, end of year** \$ 6,717,698

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**Supplemental Cash Flow Information:**

No amounts were paid for interest or taxes during 2011.

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The accompanying notes are an integral part of these statements.

# Myelin Repair Foundation, Inc.

## Notes to Financial Statements

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### Note 1 - Description of Organization:

Founded in 2002, the Myelin Repair Foundation, Inc. (the Foundation) is a Saratoga, California based nonprofit medical research organization that is pioneering a new model for medical research in order to accelerate the rate of basic research and rapidly translate discoveries made in academic laboratories into patient treatments. The Foundation is demonstrating its Accelerated Research Collaboration™ model on the development of a myelin repair treatment for multiple sclerosis (MS). Early and rapid success have allowed the Foundation to build a sizable portfolio of potential myelin repair treatments targets, as well as a strong set of new research tools that have the potential to advance all myelin repair research. Five U.S. patents have been issued for this work. The Foundation's current focus is on building the infrastructure to validate and translate its discoveries into commercially viable opportunities for pharmaceutical development. The Foundation has been widely recognized for its innovative and holistic approach to medical research.

Contributions and grants are the primary source of revenue for the Foundation.

### Note 2 - Summary of Significant Accounting Policies:

#### a. Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting.

#### b. Description 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.

*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 Foundation.

*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 Foundation. The Foundation does not currently have any permanently restricted net assets.

#### c. Cash and Cash Equivalents

The Foundation considers cash held in bank accounts and all highly liquid financial instruments with an original maturity of less than 90 days to be cash and cash equivalents.

# Myelin Repair Foundation, Inc.

## Notes to Financial Statements

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d. Promises to Give

Promises to give are recognized when the donor makes an unconditional promise to give to the Foundation. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using a market interest rate, applicable to the years in which the promises are made, to discount the amounts.

The Foundation evaluates the need for an allowance for doubtful pledges on a specific identification method and based on past history.

e. Investments

Investments are stated at fair market value and consist of certificates of deposit with original maturity dates of more than 90 days that are not included as cash and cash equivalents as discussed above.

f. Other Assets

Other assets include property and equipment, which is stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is computed using the straight-line method over estimated useful lives ranging from two to seven years.

g. Recognition of Revenues

Contributions and grants are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to the Foundation. Donor-restricted contributions and grants 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. All pledges are classified as temporarily restricted net assets and are reclassified to unrestricted net assets in the year the pledge amount is received. The Research Program is the sole program of the Foundation. Therefore, all contributions to this program are reported as unrestricted revenues unless further restricted by the donor.

Conditional gifts received are recorded as deferred revenues and are recognized as revenue in the period the conditions are met.

Contributed services are reported on the Statement of Activities at the fair value of the services received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or if the services require specialized skills and would typically need to be purchased if not donated. For the year ended June 30, 2011, the Foundation recorded \$33,878 and \$39,875 for pro bono legal and accounting expenses, respectively.

# Myelin Repair Foundation, Inc.

## Notes to Financial Statements

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### h. Research Grants

Research grants awarded by the Foundation are generally limited to a 12 month period, subject to renewal on an annual basis. The renewal is at the Foundation's discretion based upon the research plan and budget of the Foundation. The liability and related expenses are recorded when the recipients are notified of their annual award amounts.

### i. Patent Expense and Sharing of Income Associated with an Invention

The Foundation incurs expenses related to filing patents on behalf of its research partners. In accordance with agreements reached with universities, the Foundation has the right to license patents to commercial companies. Income generated from the licensing and/or other exploitation of inventions will be collected by the Foundation and distributed according to the agreements reached with the member universities.

The Foundation has not yet received income generated from inventions.

For the year ended June 30, 2011, expenses relating to patents were \$257,195.

### j. Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain expenses have been allocated among the programs and supporting services benefited based on time.

### k. Fair Value Measurements

The Foundation accounts for all its financial instruments which are required to be measured at fair value on a recurring basis according to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). This standard requires the Foundation to classify its financial assets and liabilities based on a valuation method using three levels:

Level 1 Quoted market prices unadjusted in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Foundation performs an analysis of the assets and liabilities that are subject to ASC 820.

# Myelin Repair Foundation, Inc.

## Notes to Financial Statements

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### l. 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.

### m. Subsequent Events

The Foundation has evaluated subsequent events through November 10, 2011, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

### **Note 3 - Unconditional Promises to Give:**

Unconditional promises to give due in more than one year are reflected at the value of estimated future cash flows using a discount rate ranging from .16% to 2.74%. Unconditional promises to give at June 30, 2011 are as follows:

Receivable in less than one year	\$ 1,278,080
Receivable due in one to five years	3,663,201
Receivable due in six to nine years	1,550,000
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Total unconditional promises to give	6,491,281
Less discounts to net present value	(514,979)
Less allowance for doubtful pledge	(37,900)
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<u>Net unconditional promises to give</u>	<u>\$ 5,938,402</u>

### **Note 4 - Conditional Grant:**

The Foundation received a conditional grant of \$500,000 in September 2010. The grant is conditional upon funding specific research projects during a one year period. As of June 30, 2011 the Foundation had funded the projects for nine months and had recognized the gift as revenue accordingly. There is an additional \$500,000 available for a second year of funding for these specific research projects which has not been recognized as revenue.

# Myelin Repair Foundation, Inc.

## Notes to Financial Statements

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### Note 5 - Commitments:

The Foundation leases its office facility which requires monthly rent of \$7,210. The three-year operating lease terminates January 31, 2014. Rent expense was \$91,581 for the year ended June 30, 2011.

Minimum rental payments under the lease agreements are as follows for the years ended June 30:

2012	\$ 86,520
2013	86,520
2014	50,470
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Total future minimum rental payments	\$ 223,510

### Note 6 - Temporarily Restricted Net Assets:

Temporarily restricted net assets as of June 30, 2011 are comprised of unconditional promises to give. The restrictions thereon will expire by passage of time as payments are received.

Net assets were released during the year ended June 30, 2011 in the amount of \$1,488,111 representing payments received on the unconditional promises to give.

### Note 7 - Tax Exempt Status:

The Foundation is exempt from Federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, respectively. Additionally, the Foundation has been determined by the Internal Revenue Service not to be a private foundation within the meaning of section 509(a) of the Internal Revenue Code.

The Foundation follows FASB ASC Topic 740 *Income Taxes* to account for uncertain tax positions. Management has concluded that the Foundation has taken no uncertain tax positions that would require adjustment to the financial statements to comply with provisions of this guidance.

The Foundation is generally no longer subject to income tax examinations by Federal and state tax authorities for years prior to 2007.

# Myelin Repair Foundation, Inc.

## Notes to Financial Statements

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### **Note 8 - Concentrations of Credit Risk:**

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist of cash and unconditional promises to give. Cash balances may, from time to time, exceed Federal Deposit Insurance Corporation insurable limits; however, the Foundation has not experienced any credit losses on its financial instruments in past years. Unconditional promises to give are due from various donors. An allowance for doubtful pledges is also maintained.