

MYELIN REPAIR FOUNDATION, INC.

JUNE 30, 2012

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Myelin Repair Foundation, Inc.

Independent Auditors' Report and Financial Statements

Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 11

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, 2012, 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, 2012, 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.



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November 27, 2012

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Myelin Repair Foundation, Inc.

Statement of Financial Position

June 30, 2012

Assets

Cash and cash equivalents	\$ 5,676,564
Unconditional promises to give, net	2,682,033
Prepaid expenses	6,035
Other assets	72,275

Total assets	\$ 8,436,907
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Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 340,288
Deferred revenues	235,000

Total liabilities	575,288
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Net Assets:

Unrestricted	5,179,586
Temporarily restricted	2,682,033

Total net assets	7,861,619
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Total liabilities and net assets	\$ 8,436,907
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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, 2012

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Contributions and grants	\$ 1,977,020	\$ 40,000	\$ 2,017,020
Investment income	7,382		7,382
Other income	47,705		47,705
Net assets released from restrictions	3,296,369	(3,296,369)	
Total revenue and support	5,328,476	(3,256,369)	2,072,107
Expenses:			
Research program services:			
Research grants	2,873,000		2,873,000
Research program expenses	1,967,758		1,967,758
Total research program services	4,840,758		4,840,758
Supporting services:			
Management	669,614		669,614
Fundraising	791,875		791,875
Total supporting services	1,461,489		1,461,489
Total expenses	6,302,247		6,302,247
Change in Net Assets	(973,771)	(3,256,369)	(4,230,140)
Net Assets, beginning of year	6,153,357	5,938,402	12,091,759
Net Assets, end of year	\$ 5,179,586	\$ 2,682,033	\$ 7,861,619

The accompanying notes are an integral part of these statements.

Myelin Repair Foundation, Inc.
Statement of Functional Expenses

Year Ended June 30, 2012

	Program Services	Supporting Services		Total
	Research	Management	Fundraising	
Research grants	\$ 2,873,000			\$ 2,873,000
Salaries	633,965	\$ 145,293	\$ 472,973	1,252,231
Employee benefits and payroll taxes	124,355	59,519	148,202	332,076
Total salaries and related expenses	758,320	204,812	621,175	1,584,307
Professional services	236,000	257,881	28,236	522,117
Patent expenses	445,265			445,265
Annual research meetings	166,326			166,326
Translational medicine lab, including rent of \$43,500	115,450			115,450
Travel and meals	55,061	36,819	19,078	110,958
Legal expenses	93,133			93,133
Office rent		86,971		86,971
Special events			53,433	53,433
Information technology	42,000			42,000
Contract research	36,764			36,764
Other	3,947	10,186	16,928	31,061
Marketing supplies		1,261	26,806	28,067
Office expense	2,313	18,721	1,130	22,164
Telecommunications	3,065	17,159	1,628	21,852
Seminars and conferences	9,790		9,861	19,651
Depreciation		17,247		17,247
Website maintenance			13,600	13,600
Repairs and maintenance		8,401		8,401
Insurance		7,308		7,308
Postage and delivery	324	2,848		3,172
Total expenses	\$ 4,840,758	\$ 669,614	\$ 791,875	\$ 6,302,247

The accompanying notes are an integral part of these statements.

Myelin Repair Foundation, Inc.

Statement of Cash Flows

Year Ended June 30, 2012

Cash Flows from Operating Activities:

Change in net assets	\$ (4,230,140)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	17,247
Changes in operating assets and liabilities:	
Unconditional promises to give	3,256,369
Prepaid expenses	91,380
Other assets	(15,219)
Accounts payable and accrued expenses	(154,814)
Deferred revenues	31,667

Net cash used by operating activities	(1,003,510)
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Cash Flows from Investing Activities:

Payments for capitalized equipment and software	(37,624)
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Net cash used by investing activities	(37,624)
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Net Change in Cash	(1,041,134)
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Cash and Cash Equivalents, beginning of year	6,717,698
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Cash and Cash Equivalents, end of year	\$ 5,676,564
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Supplemental Cash Flow Information:

No amounts were paid for interest or taxes during 2012.

The accompanying notes are an integral part of these statements.

Myelin Repair Foundation, Inc.

Notes to Financial Statements

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

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 promises on a specific identification method and based on past history.

e. 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.

f. 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 grants 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, 2012, the Foundation recorded \$235,617 and \$74,972 for pro bono professional services, respectively.

Myelin Repair Foundation, Inc.

Notes to Financial Statements

g. 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.

h. 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, 2012, expenses relating to patents were \$445,265.

i. 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.

j. 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.

k. Subsequent Events

The Foundation has evaluated subsequent events through November 27, 2012, 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.

Myelin Repair Foundation, Inc.

Notes to 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 0.27% to 2.74%. Unconditional promises to give at June 30, 2012 are as follows:

Receivable in less than one year	\$ 501,625
Receivable due in one to five years	816,391
Receivable due in six to nine years	1,550,000
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Total unconditional promises to give	2,868,016
Less discounts to net present value	(148,083)
Less allowance for doubtful promises	(37,900)
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Net unconditional promises to give	\$ 2,682,033

Note 4 - Conditional Grant:

As of June 30, 2012, the Foundation has \$700,000 of conditional grants receivable. These grants are conditional upon funding specific research projects for future periods and are not reflected in the Foundation's Statement of Financial Position.

Myelin Repair Foundation, Inc.

Notes to Financial Statements

Note 5 - Commitments:

The Foundation leases its office facility which requires monthly rent of \$7,363. The three-year operating lease terminates January 31, 2014. Office rent expense was \$86,971 for the year ended June 30, 2012.

During 2012, the Foundation entered a lease agreement to rent a laboratory facility which requires monthly payments of \$8,500. The two-year operating lease terminates March 31, 2013. Laboratory rent expense was \$43,500 for the year ended June 30, 2012.

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

2013	\$ 189,356
2014	51,541
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Total future minimum rental payments	\$ 240,897

Note 6 - Temporarily Restricted Net Assets:

Temporarily restricted net assets as of June 30, 2012 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, 2012 in the amount of \$3,296,369 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 Financial Accounting Standards Board's Accounting Standards Codification 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 2008 and 2007, respectively

Myelin Repair Foundation, Inc.

Notes to Financial Statements

Note 8 - Related Party Transactions:

The Foundation has a contractual relationship with a party related to an executive at the Foundation. For the year ending June 30, 2012, the Foundation paid \$90,000 to this related party for professional services.

Note 9 - 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 in past years. Unconditional promises to give are due from various donors. An allowance for doubtful promises is also maintained.