

NATIONAL MPS SOCIETY, INC.

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2011 and 2010



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R | C | O RYLANDER, CLAY & OPITZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
Smart Solutions. Real Results.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
National MPS Society, Inc.

We have audited the accompanying statements of financial position of National MPS Society, Inc. (the "Society") as of December 31, 2011 and 2010 and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide 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 National MPS Society, Inc. as of December 31, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rylander, Clay & Opitz, LLP

May 7, 2012

NATIONAL MPS SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 247,077	\$ 792,844
Investments	1,474,455	1,030,370
Prepaid expenses	4,077	5,067
Property and equipment, net	6,854	5,889
Investments restricted for endowment	<u>1,034,260</u>	<u>1,013,282</u>
Total assets	<u><u>\$ 2,766,723</u></u>	<u><u>\$ 2,847,452</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 11,696</u>	<u>\$ 14,356</u>
Total liabilities	<u>11,696</u>	<u>14,356</u>
Commitments (Note 9)		
Net Assets		
Unrestricted		
Undesignated	819,175	915,081
Designated	<u>305,585</u>	<u>330,000</u>
	1,124,760	1,245,081
Temporarily restricted	629,473	587,221
Permanently restricted	<u>1,000,794</u>	<u>1,000,794</u>
Total net assets	<u>2,755,027</u>	<u>2,833,096</u>
Total liabilities and net assets	<u><u>\$ 2,766,723</u></u>	<u><u>\$ 2,847,452</u></u>

See notes to financial statements.



NATIONAL MPS SOCIETY, INC.

STATEMENTS OF ACTIVITIES
Years Ended December 31, 2011 and 2010

	2011			2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:								
Contributions								
General	\$ 112,571	\$ -	\$ -	\$ 112,571	\$ 598,700	\$ -	\$ -	\$ 598,700
Research	-	61,622	-	61,622	-	77,539	-	77,539
Sponsored contributions	93,872	-	-	93,872	298,000	-	-	298,000
Other programs	-	104,553	-	104,553	-	134,472	-	134,472
Membership dues	34,065	-	-	34,065	33,830	-	-	33,830
Conference income	21,385	-	-	21,385	18,298	-	-	18,298
Special events	107,132	516,290	-	623,422	93,426	393,967	-	487,393
Other sales	-	7,612	-	7,612	-	9,408	-	9,408
Investment income, net of fees	21,240	19,865	-	41,105	25,149	17,686	-	42,835
Net unrealized and realized gain on investments	-	33,198	-	33,198	-	2,045	-	2,045
Net assets released from restrictions:								
Satisfaction of program restrictions	668,803	(668,803)	-	-	734,915	(734,915)	-	-
Satisfaction of time restrictions	32,085	(32,085)	-	-	-	-	-	-
Total revenue and support	1,091,153	42,252	-	1,133,405	1,802,318	(99,798)	-	1,702,520
Expenses:								
Program	907,607	-	-	907,607	929,678	-	-	929,678
General and administrative	167,710	-	-	167,710	164,638	-	-	164,638
Fundraising	136,157	-	-	136,157	124,170	-	-	124,170
Total expenses	1,211,474	-	-	1,211,474	1,218,486	-	-	1,218,486
Change in net assets	(120,321)	42,252	-	(78,069)	583,832	(99,798)	-	484,034
Net assets at beginning of year	1,245,081	587,221	1,000,794	2,833,096	661,249	687,019	1,000,794	2,349,062
Net assets at end of year	\$ 1,124,760	\$ 629,473	\$ 1,000,794	\$ 2,755,027	\$ 1,245,081	\$ 587,221	\$ 1,000,794	\$ 2,833,096

See notes to financial statements.



NATIONAL MPS SOCIETY, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (78,069)	\$ 484,034
Adjustments to reconcile change in net assets to cash (used) provided by operating activities:		
Depreciation	3,100	4,015
Net unrealized and realized gain on investments	(33,198)	(2,045)
Changes in assets and liabilities:		
Prepaid expenses	990	(1,470)
Accounts payable and accrued expenses	(2,660)	(79,932)
Net cash (used) provided by operating activities	<u>(109,837)</u>	<u>404,602</u>
Cash Flows from Investing Activities		
Sales and maturities of investments	1,167,690	1,312,566
Purchases of investments	(1,599,555)	(2,124,173)
Purchase of equipment	(4,065)	(2,230)
Net cash used by investing activities	<u>(435,930)</u>	<u>(813,837)</u>
Net decrease in cash and cash equivalents	(545,767)	(409,235)
Cash and cash equivalents at beginning of year	<u>792,844</u>	<u>1,202,079</u>
Cash and cash equivalents at end of year	<u>\$ 247,077</u>	<u>\$ 792,844</u>

See notes to financial statements.



NATIONAL MPS SOCIETY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2011 and 2010

	2011			2010		
	Program	General and Administrative	Total	Program	General and Administrative	Total
Salaries and fringe benefits	\$ 89,292	\$ 93,946	\$ 222,204	\$ 79,621	\$ 90,324	\$ 206,264
Payroll tax	6,498	6,925	16,314	5,606	6,360	14,523
Awards	-	-	3,176	-	-	5,446
Printing	12,617	8,232	32,842	15,744	9,382	33,853
Postage	7,480	6,388	16,427	9,286	6,945	18,892
Conferences, meetings, and travel	200,794	-	200,794	262,275	-	262,275
Family assistance	56,878	-	56,878	32,673	-	32,673
Research grants	419,200	-	419,200	457,500	-	457,500
Telephone	3,434	2,289	5,723	4,552	3,034	7,586
Office supplies	1,771	1,181	2,952	3,767	2,511	6,278
Insurance	6,762	4,507	11,269	6,757	4,505	11,262
Legal and audit	-	16,795	16,795	-	17,059	17,059
Subscriptions, dues, and fees	4,441	9,043	23,823	3,277	7,480	17,334
Fundraising expenses	-	-	54,019	-	-	50,661
Logo sale items	-	-	6,039	-	-	8,182
Building rent and utilities	17,211	11,474	28,685	15,712	10,475	26,187
Equipment	1,976	1,318	3,294	1,778	1,185	2,963
Miscellaneous	5,582	735	6,317	4,427	906	5,333
Contract service	71,811	3,637	81,623	24,294	2,866	30,200
Total expenses						
before depreciation	905,747	166,470	1,208,374	927,269	163,032	1,214,471
Depreciation	1,860	1,240	3,100	2,409	1,606	4,015
Total expenses	\$ 907,607	\$ 167,710	\$ 1,211,474	\$ 929,678	\$ 164,638	\$ 1,218,486

See notes to financial statements.



NATIONAL MPS SOCIETY, INC.
DECEMBER 31, 2011 AND 2010
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Programs

The National MPS Society, Inc. (the "Society") is a not-for-profit organization dedicated to finding a cure for mucopolysaccharidosis ("MPS") and related diseases. To achieve this goal, the Society supports research, provides support to individuals and families affected by MPS or related diseases, and promotes public and professional awareness.

Basis of Accounting and Use of Estimates

The financial statements of the Society are prepared on the accrual basis of accounting and use estimates and assumptions in preparing those financials in accordance with U.S. Generally Accepted Accounting Principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that are used.

Cash Equivalents

Cash equivalents include all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents includes \$125,773 and \$5,476 of money market mutual funds as of December 31, 2011 and 2010, respectively.

Investments

Investments consist of certificates of deposits and fixed income securities. The Society carries its investments in marketable securities with readily determinable fair values at their fair values on the statements of financial position. Unrealized and realized gains and losses are included in the statement of activities.

Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally Accepted Accounting Principles establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets where that particular asset or liability is not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.



NATIONAL MPS SOCIETY, INC.
DECEMBER 31, 2011 AND 2010
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment that are purchased are recorded at cost and depreciated using the straight-line method, over approximately three to five years. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Society reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Permanently Restricted Net Assets

In 2006, the Society established an endowment fund to provide a permanent source of funding for its operations and overhead expenses. Contributions received for this fund are to be invested, used, and spent in accordance with the endowment fund's policy in perpetuity. As such these contributions are considered to be permanently restricted.

Revenue Recognition

Contributions are recognized when the donor makes an unconditional promise to give to the Society. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

Membership dues are recognized as revenue when earned.

Special event revenue is revenue recognized from events organized by volunteers or by the Society that generate income from fundraising functions designed to attract donors and raise awareness.

Recognition of Donor Restrictions

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Materials and Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Society. Volunteers provide valuable services throughout the year that are not recognized as contributions in the financial statements because the recognition criteria was not met.



NATIONAL MPS SOCIETY, INC.
DECEMBER 31, 2011 AND 2010
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Society is a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code and therefore, is not subject to income taxes. The Society is not a “private foundation” for tax purposes. As a not-for-profit organization, the Society is not liable for federal income taxes.

The Society is subject to accounting standards, which require financial statement recognition and disclosure for uncertain tax positions taken or expected to be claimed in a tax return. Financial statement recognition of a tax position is dependent on an assessment of a 50% or greater likelihood that the tax position will be sustained upon examination by the Internal Revenue Service, based on the technical merits of the position. Interest and penalties, if any, related to uncertain tax positions would be recorded in the statement of activities as general and administrative expense.

At December 31, 2011 and 2010, management evaluated the tax positions for the Society and concluded that the Society does not have any uncertain tax positions that require adjustment or disclosure in the financial statements. With a few exceptions, the Society is no longer subject to examination by tax authorities for years before 2008, which is the standard look back period.

Functional Allocation of Expenses

The cost of providing the programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheets date but before the financial statements are issued. The Society recognizes, in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including estimates inherent in the process of preparing the financial statements. The Society’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after that date and before the financial statements are available to be issued. The Society has evaluated subsequent events through May 7, 2012, which is the date the financial statements were available to be issued.

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2011	2010
Furniture and equipment	\$ 27,656	\$ 34,156
Less: accumulated depreciation	(20,802)	(28,267)
	<u>\$ 6,854</u>	<u>\$ 5,889</u>



NATIONAL MPS SOCIETY, INC.
DECEMBER 31, 2011 AND 2010
NOTES TO FINANCIAL STATEMENTS

NOTE 3. FAIR VALUE OF ASSETS AND LIABILITIES

The Society accounts for its assets and liabilities under fair value accounting standards. These standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010.

Money market portfolio: Valued at fair value at quoted net asset value of shares, which are \$1, at year end.

Certificates of deposit: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Corporate bonds and U.S. government securities: Valued at the closing price reported on the major market on which the individual securities are traded or have reported broker trades which may be considered indicative of an active market. Where quoted prices are available in an active market, the investments are classified within level 1 of the valuation hierarchy.

The valuation methods used by the Society may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.



NATIONAL MPS SOCIETY, INC.
DECEMBER 31, 2011 AND 2010
NOTES TO FINANCIAL STATEMENTS

NOTE 3. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

The Society's investments at December 31, 2011 are categorized as follows:

	Level 1	Level 2	Level 3	Total
Investments				
Money market portfolio	\$ 54,455	\$ -	\$ -	\$ 54,455
Certificates of deposit	1,420,000	-	-	1,420,000
Total Investments	\$ 1,474,455	\$ -	\$ -	\$ 1,474,455
Investments restricted for endowment				
Fixed income				
Government backed mortgages	\$ 518,133	\$ -	\$ -	\$ 518,133
U.S. Treasury notes	252,134	-	-	252,134
Corporate bonds	263,993	-	-	263,993
Total Investments restricted for endowment	\$ 1,034,260	\$ -	\$ -	\$ 1,034,260

The Society's investments at December 31, 2010 are categorized as follows:

	Level 1	Level 2	Level 3	Total
Investments				
Money market portfolio	\$ 22,370	\$ -	\$ -	\$ 22,370
Certificates of deposit	1,008,000	-	-	1,008,000
Total Investments	\$ 1,030,370	\$ -	\$ -	\$ 1,030,370
Investments restricted for endowment				
Fixed income				
Government backed mortgages	\$ 470,948	\$ -	\$ -	\$ 470,948
U.S. Treasury notes	309,490	-	-	309,490
Corporate bonds	232,844	-	-	232,844
Total Investments restricted for endowment	\$ 1,013,282	\$ -	\$ -	\$ 1,013,282



NATIONAL MPS SOCIETY, INC.
DECEMBER 31, 2011 AND 2010
NOTES TO FINANCIAL STATEMENTS

NOTE 4. DESIGNATED NET ASSETS

The unrestricted designated net assets are amounts designated for future activities and programs of the Society. Activity in designated net assets for the years ended December 31, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 330,000	\$ -
Additions to designated net assets	70,000	330,000
Reductions of designated net assets	(94,415)	-
Balance at end of year	<u>\$ 305,585</u>	<u>\$ 330,000</u>

NOTE 5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets relate to restricted contributions specified for the following purposes:

	<u>2011</u>	<u>2010</u>
Medical research	\$ 557,792	\$ 510,882
Family assistance programs	38,215	33,851
Other programs	-	30,000
Unappropriated endowment earnings	33,466	12,488
Balance at end of year	<u>\$ 629,473</u>	<u>\$ 587,221</u>

NOTE 6. ENDOWMENT FUND

The Society's endowment fund consists of fixed income securities. This fund consists of contributions made to establish a permanent endowment, the earnings from which are to be used to support the Society's operations. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Composition and Activity of Endowment Funds

Endowment net asset composition by type of funds for the years ended December 31, 2011 and 2010 follows:

	<u>2011</u>			<u>2010</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	<u>\$ 33,466</u>	<u>\$ 1,000,794</u>	<u>\$1,034,260</u>	<u>\$ 12,488</u>	<u>\$ 1,000,794</u>	<u>\$1,013,282</u>



NATIONAL MPS SOCIETY, INC.
DECEMBER 31, 2011 AND 2010
NOTES TO FINANCIAL STATEMENTS

NOTE 6. ENDOWMENT FUND (Continued)

The changes in the endowment net assets for the years ended December 31, 2011 and 2010 follow:

	2011		
	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	\$ 12,488	\$ 1,000,794	\$ 1,013,282
Interest earned	25,932	-	25,932
Net appreciation (realized and unrealized)	27,131	-	27,131
Appropriation of endowment assets for expenditure	(32,085)	-	(32,085)
Balance at end of year	<u>\$ 33,466</u>	<u>\$ 1,000,794</u>	<u>\$ 1,034,260</u>
	2010		
	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	\$ 15,127	\$ 1,000,794	\$ 1,015,921
Interest earned	21,110	-	21,110
Net depreciation (realized and unrealized)	(1,379)	-	(1,379)
Appropriation of endowment assets for expenditure	(22,370)	-	(22,370)
Balance at end of year	<u>\$ 12,488</u>	<u>\$ 1,000,794</u>	<u>\$ 1,013,282</u>

Interpretation of Relevant Law

The Society holds all donor-restricted endowment contributions by requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society. In accordance with the law, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the funds; the purposes of the Society and the donor-restricted endowment fund; the general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Society; and the investment policies established by the Society.



NATIONAL MPS SOCIETY, INC.
DECEMBER 31, 2011 AND 2010
NOTES TO FINANCIAL STATEMENTS

NOTE 6. ENDOWMENT FUND (Continued)

Return Objectives and Risk Parameters

The Society aims to invest its financial assets to maximize total return consistent with an acceptable level of risk. The Society expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Strategies Employed for Achieving Objectives

Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return or to reduce bank service charges.

Endowment assets will be invested in a well diversified asset mix, which includes time deposits and equity and debt securities, that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the fund if possible.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowment policy provides that a distribution of up to 7% of the average net fair market value of the Fund's assets may be made annually to cover operations and overhead expenses; however, the distribution rate for 2011 and 2010 is 4%. The policy has an additional provision for an emergency invasion of funds of up to 15% of the value of the fund during a calendar year, if required.

NOTE 7. CONCENTRATION

The Society received donations of \$100,000 from one donor who represents 11% of all contributions received during 2011. The Society received \$660,000 from one donor which represents 51% of all contributions received during 2010.

NOTE 8. RETIREMENT PLAN

The Society has adopted a Simple Retirement Account Program which provides a matching provision from the Society on employee contributions up to 3% of the employees' compensation. Matching contributions were approximately \$3,900 and \$3,400 in 2011 and 2010, respectively.

NOTE 9. LEASE COMMITMENT

The Society has entered into an operating lease agreement for the lease of office space having a remaining term in excess of one year. Rent expense approximated \$27,000 and \$26,000 in 2011 and 2010, respectively. At December 31, 2011, the future minimum lease commitments are:

2012	\$	27,000
2013		5,000
	\$	<u>32,000</u>

