

**ADVANCEMENT OF RESEARCH FOR
MYOPATHIES (ARM)**

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

SEPTEMBER 30, 2007

ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)
SEPTEMBER 30, 2007

TABLE OF CONTENTS

	<u>PAGE</u>
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

ALBERT DAVIDOO & COMPANY

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Advancement of Research for Myopathies (ARM)
Encino, California

We have audited the accompanying statements of financial position of Advancement of Research for Myopathies – ARM (the “Organization”) (a California non-profit Organization) as of September 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization’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 misstatement. 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 Advancement of Research for Myopathies (ARM) as of September 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

May 21, 2007

ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)

Statement of Financial Position

September 30, 2007

ASSETS

Current Assets	
Cash	<u>\$ 42,763</u>
Total current assets	42,763
Fixed assets	
Office equipment	401
Less accumulated depreciation	<u>251</u>
Total fixed assets	<u>150</u>
Total assets	<u>\$ 42,913</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accrued expenses	<u>\$ 6,294</u>
Total current liabilities	6,294
Contingencies	-
Net assets - Unrestricted	<u>36,619</u>
Total liabilities and net assets	<u>\$ 42,913</u>

The accompanying notes are an integral part of these financial statements.

ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)

Statement of Activities
Year Ended September 30, 2007

REVENUES:

Contributions and grants	\$ 527,785
Interest income	<u>81</u>
Total revenues	527,866

EXPENSES:

Program services:	
Primary research	304,151
Research development and patient services	<u>145,847</u>
Total program services	449,998
Support services:	
General and administrative	6,482
Fundraising	<u>109,674</u>
Total support services	<u>116,156</u>
Total expenses	<u>566,154</u>
Decrease in unrestricted net assets	(38,288)
Unrestricted net assets at beginning of year	<u>74,907</u>
Unrestricted net assets at end of year	<u>\$ 36,619</u>

The accompanying notes are an integral part of these financial statements.

ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)
Statement of Functional Expenses
For the Year ended September 30, 2007

	PROGRAM SERVICES		SUPPORT SERVICES			
	Program Services	Total Program Services	General and Administrative	Fund raising	Total Support Services	Total Expenses
Grants and allocations	\$ 449,998	\$ 449,998	\$ -	\$ -	\$ -	\$ 449,998
Fund-raising activities	-	-	-	53,115	53,115	53,115
Licenses and permits	-	-	-	110	110	110
Rent	-	-	3,278	3,279	6,557	6,557
Payroll taxes	-	-	-	4,309	4,309	4,309
Office expenses	-	-	-	770	770	770
Postage and shipping	-	-	-	1,656	1,656	1,656
Telephone	-	-	1,041	1,042	2,083	2,083
Legal and professional fees	-	-	2,050	-	2,050	2,050
Salaries and wages	-	-	-	38,722	38,722	38,722
Travel	-	-	-	395	395	395
Printing and visual aids	-	-	-	3,080	3,080	3,080
Credit card fees	-	-	-	2,039	2,039	2,039
Depreciation	-	-	113	-	113	113
Bank fees	-	-	-	1,157	1,157	1,157
	-	-	-	1,157	1,157	1,157
 Total	 <u>\$ 449,998</u>	 <u>\$ 449,998</u>	 <u>\$ 6,482</u>	 <u>\$ 109,674</u>	 <u>\$ 116,156</u>	 <u>\$ 566,154</u>

The accompanying notes are an integral part of these financial statements.

ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)

Statement of Cash Flows
Year Ended September 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Decrease in unrestricted net assets	\$(38,288)
Adjustments to reconcile increase in unrestricted net assets to net cash used in operating activities:	
Depreciation	113
Changes in assets and liabilities:	
Increase in accrued expenses	<u>4,025</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (34,150)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>76,913</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 42,763</u>

The accompanying notes are an integral part of these financial statements.

ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)

Notes to Financial Statements

September 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Advancement of Research for Myopathies (the “Organization”) is a non-profit corporation organized to provide funds for development of effective treatments for autosomal recessive inclusion body myopathy (IBM2). IBM2 is also known as quadriceps spring myopathy (QSM), distal myopathy with rimmed vacuoles (DMRV or nonka’s myopathy), or hereditary inclusion body myopathy (HIBM).

Basis of Accounting

The financial statements of Advancement of Research for Myopathies have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Statement of Cash Flows

For the purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Fixed Assets

Property and equipment are stated at cost. Depreciation on assets is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method of depreciation is followed for all assets.

Income Taxes

Advancement of Research for Myopathies is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, Advancement of Research for Myopathies has made no provision for federal income taxes in the accompanying financial statements.

Functional Allocation of Expenses

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

ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)

Notes to Financial Statements

September 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restriction of Funds

All funds in the various bank accounts are unrestricted funds.

NOTE 2 – BASIS FOR GRANTS PAYABLE

Grants awards may extend a period of 1-3 years and are paid on a quarterly basis. The Organization records the initial year's liabilities and related expenses for the awarded grants after recommended for approval by the Organization's independent scientific peer reviewers and approved by the Board of Directors. Funding of the remaining committed future amounts of grants is contingent upon satisfactory scientific and/or medical review and the availability of funds. For the year ended September 30, 2007, \$145,847 in grants were paid to HIBM Research Group, Inc., which is a non-profit organization with the main purpose of engaging in medical research regarding Hereditary Inclusion Body Myopathies (HIBM).

NOTE 3 – FUNDRAISING ACTIVITIES

Advancement of Research for Myopathies (ARM) organizes special events to increase awareness and raise funds for biomedical research.

NOTE 4 – FIXED ASSETS

As of September 30, 2007, fixed assets consist of:

Office equipment	\$ 401
Less accumulated depreciation	<u>251</u>
	<u>\$ 150</u>

ADVANCEMENT OF RESEARCH FOR MYOPATHIES (ARM)

Notes to Financial Statements

September 30, 2007

NOTE 5 - COMMITMENTS

The Organization entered into a joint lease agreement with two other tenants for office space rental in April 2004. The lease was for three years and expired on March 31, 2007. Currently the facilities are being rented on a month-to-month basis. The company is in negotiations to finalize an agreement.

<u>YEAR</u>	<u>RENT EXPENSE</u>
2008	\$ -
2009	-
2010	-
2011	-
2012	-
TOTAL	<u>\$ -</u>

Total rent expense for the year was \$6,557.

NOTE 6 – MAJOR CONTRIBUTIONS

During the year Advancement of Research for Myopathies (ARM) had contributions from eight major donors (over \$ 5,000), representing 51% of the contribution revenues and 22% of the overall revenues.

NOTE 7 - OFF-BALANCE SHEET CREDIT RISK

Advancement of Research for Myopathies (ARM) periodically maintains balances in its various cash accounts in excess of \$100,000. Such excess is not insured by the Federal Depository Insurance Corporation (FDIC).