

SCLERODERMA FOUNDATION, INC.

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2009 and 2008

SCLERODERMA FOUNDATION, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Scleroderma Foundation, Inc.
Danvers, MA**

We have audited the accompanying statement of financial position of Scleroderma Foundation, Inc. (a nonprofit organization) as of December 31, 2009 and the related statements of activities, functional expenses and cash flows for the year then ended. The 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. The prior year summarized comparative information has been derived from Scleroderma Foundation, Inc.'s 2008 financial statements and, in our report dated November 11, 2009, we expressed an unqualified opinion on these financial statements.

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 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 Scleroderma Foundation, Inc as of December 31, 2009, 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.

Coon Group, LLC
Coon Group, LLC

July 3, 2010
Haverhill, MA

SCLERODERMA FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31,

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 2,234,903	\$ 2,301,117
Due from affiliates	298,408	337,352
Assets held by chapters	2,065,431	1,891,616
Unconditional promises to give	124,384	38,728
Investments	5,132,972	3,048,335
Prepaid expenses	40,637	23,569
Security deposits	18,331	18,331
Furniture and equipment, net	<u>6,681</u>	<u>24,528</u>
Total assets	<u>\$ 9,921,747</u>	<u>\$ 7,683,576</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 130,775	\$ 26,101
Accrued expenses	47,534	182,980
Grants payable	1,838,705	1,068,279
Capital lease obligations	-	3,048
Deferred revenue	<u>60,000</u>	<u>-</u>
Total liabilities	<u>2,077,014</u>	<u>1,280,408</u>
Net Assets:		
Unrestricted, including \$112,990 and \$141,000 designated by the Board to support research	4,823,532	2,589,770
Temporarily restricted	1,478,826	2,271,023
Permanently restricted	<u>1,542,375</u>	<u>1,542,375</u>
Total net assets	<u>7,844,733</u>	<u>6,403,168</u>
Total liabilities and net assets	<u>\$ 9,921,747</u>	<u>\$ 7,683,576</u>

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

SCLERODERMA FOUNDATION, INC.

STATEMENT OF ACTIVITIES

DECEMBER 31, 2009

(With Comparative Totals for the Year Ended December 31, 2008)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>	<u>2008 Total</u>
Revenues, gains and other support:					
Contribution revenue	\$ 2,609,714	\$ -	\$ -	\$ 2,609,714	\$ 3,351,953
Bequests	1,358,504	-	-	1,358,504	936,117
Special events, net	213,133	-	-	213,133	69,674
Membership dues	74,262	-	-	74,262	68,007
Investment income	12,919	191,790	-	204,709	210,074
Other income	46,559	-	-	46,559	51,457
Net assets released from restrictions:					
Satisfaction of program expenses	<u>1,643,783</u>	<u>(1,643,783)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>5,958,874</u>	<u>(1,451,993)</u>	<u>-</u>	<u>4,506,881</u>	<u>6,070,356</u>
Net realized and unrealized					
loss on investments	<u>66,473</u>	<u>659,796</u>	<u>-</u>	<u>726,269</u>	<u>(1,089,818)</u>
Total revenue, gains and other support	<u>6,025,347</u>	<u>(792,197)</u>	<u>-</u>	<u>5,233,150</u>	<u>4,980,538</u>
Expenses - Program Services					
Research and education	2,359,755	-	-	2,359,755	1,883,874
Support and advocacy	<u>989,589</u>	<u>-</u>	<u>-</u>	<u>989,589</u>	<u>1,057,415</u>
Total expenses - program services	<u>3,349,344</u>	<u>-</u>	<u>-</u>	<u>3,349,344</u>	<u>2,941,289</u>
Expenses - Supportive Services					
Fundraising	106,388	-	-	106,388	115,615
General and administrative	<u>335,853</u>	<u>-</u>	<u>-</u>	<u>335,853</u>	<u>351,993</u>
Total expenses - supportive services	<u>442,241</u>	<u>-</u>	<u>-</u>	<u>442,241</u>	<u>467,608</u>
Total expenses	<u>3,791,585</u>	<u>-</u>	<u>-</u>	<u>3,791,585</u>	<u>3,408,897</u>
Change in net assets	2,233,762	(792,197)	-	1,441,565	188,567
Net assets, beginning of year	<u>2,589,770</u>	<u>2,271,023</u>	<u>1,542,375</u>	<u>6,403,168</u>	<u>6,214,601</u>
Net assets, end of year	<u>\$ 4,823,532</u>	<u>\$ 1,478,826</u>	<u>\$ 1,542,375</u>	<u>\$ 7,844,733</u>	<u>\$ 6,403,168</u>

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

SCLERODERMA FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	<u>Program Services</u>			<u>Fund-</u> <u>raising</u>	<u>General</u> <u>and</u> <u>Admin.</u>	<u>2009</u> <u>Total</u>	<u>2008</u> <u>Total</u>
	<u>Research</u> <u>and</u> <u>Education</u>	<u>Support</u> <u>and</u> <u>Advocacy</u>	<u>Total</u> <u>Program</u> <u>Services</u>				
Advocacy	\$ -	\$ 71,264	\$ 71,264	\$ -	\$ -	\$ 71,264	\$ 50,278
Bank charges	-	-	-	-	59,524	59,524	52,568
Board expenses	-	-	-	-	4,104	4,104	10,399
Conferences & meetings	97,442	58,019	155,461	14,369	24,084	193,914	192,387
Depreciation	8,968	5,340	14,308	1,322	2,217	17,847	41,085
Donations to affiliates	-	430,506	430,506	-	-	430,506	457,760
Dues & subscriptions	2,043	1,217	3,260	301	505	4,066	2,500
Fringe benefits	50,814	30,256	81,070	7,493	12,560	101,123	70,358
Insurance	23,702	14,113	37,815	3,495	5,858	47,168	46,438
Interest	-	-	-	-	93	93	478
Internet	-	-	-	-	9,892	9,892	12,084
License & fees	7,649	4,554	12,203	1,128	1,890	15,221	5,762
Miscellaneous	24,104	14,352	38,456	3,555	5,958	47,969	63,433
Payroll taxes	31,709	18,880	50,589	4,676	7,837	63,102	67,632
Postage & delivery	31,348	18,666	50,014	4,623	7,748	62,385	57,762
Printing & copying	47,945	28,548	76,493	7,070	11,850	95,413	115,892
Professional fees	-	-	-	-	82,296	82,296	82,776
Promotion	-	58,248	58,248	-	-	58,248	55,573
Public relations	-	-	-	-	-	-	26,985
Recruitment	-	-	-	-	1,628	1,628	385
Rent	71,283	42,444	113,727	10,512	17,618	141,857	152,662
Research grants	1,634,844	-	1,634,844	-	-	1,634,844	1,099,861
Salaries & wages	284,170	169,201	453,371	41,905	70,237	565,513	649,940
Scholarships	3,459	-	3,459	-	-	3,459	-
Software expense	580	346	926	86	143	1,155	2,446
Supplies	4,428	2,636	7,064	653	1,094	8,811	7,171
Telephone	15,811	9,414	25,225	2,331	3,908	31,464	26,533
Travel	19,456	11,585	31,041	2,869	4,809	38,719	57,749
Total	<u>\$2,359,755</u>	<u>\$ 989,589</u>	<u>\$3,349,344</u>	<u>\$ 106,388</u>	<u>\$ 335,853</u>	<u>\$3,791,585</u>	<u>\$3,408,897</u>

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

SCLERODERMA FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

DECEMBER 31,

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>1,441,565</u>	\$ <u>188,567</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,847	41,085
Net realized and unrealized (gain)/loss on investments	(726,269)	1,089,818
Change in:		
Due from affiliates	38,944	(10,247)
Assets held by chapters	(173,815)	54,571
Unconditional promises to give	(85,656)	(38,457)
Prepaid expenses	(17,068)	15,344
Accounts payable	104,674	(23,230)
Accrued expenses	(135,446)	9,384
Grants payable	770,426	155,119
Deferred revenue	<u>60,000</u>	<u>(275,000)</u>
Total adjustments	<u>(146,363)</u>	<u>1,018,387</u>
Net cash provided by (used in) operating activities	<u>1,295,202</u>	<u>1,206,954</u>
 Cash flows from investing activities:		
Purchase of investments	(1,542,109)	(2,212,927)
Proceeds from sales of investments	<u>183,741</u>	<u>1,339,097</u>
Net cash provided by investing activities	<u>(1,358,368)</u>	<u>(873,830)</u>
 Cash flows from financing activities:		
Payments on capital lease obligations	<u>(3,048)</u>	<u>(11,947)</u>
Net cash used in financing activities	<u>(3,048)</u>	<u>(11,947)</u>
 Net increase in cash and cash equivalents	(66,214)	321,177
Cash and cash equivalents, beginning	<u>2,301,117</u>	<u>1,979,940</u>
Cash and cash equivalents, ending	<u>\$ 2,234,903</u>	<u>\$ 2,301,117</u>
 Supplemental Disclosure of Cash Flow Information:		
Cash paid during year for taxes	<u>\$ -</u>	<u>\$ -</u>
Cash paid during year for interest	<u>\$ -</u>	<u>\$ -</u>

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

SCLERODERMA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

1 Summary of Significant Accounting Policies

Organization and Nature of Activities

Scleroderma Foundation, Inc., the (“Organization”) was organized to provide funds for research, provide patient information, referrals and support, and to create public awareness of the disease Scleroderma. Additionally, the Organization encourages the establishment of local chapters throughout the United States and abroad to organize a network working together to accomplish common goals.

Basis of Presentation

The financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets, in accordance with Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. 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.

Permanently Restricted Net Asset – Net assets subject to donor-imposed stipulations that they will be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Furniture, Equipment and Depreciation

Furniture and equipment are stated at cost, or, if donated, at fair market value at the date of receipt. Maintenance, repairs and minor renewals are expensed as incurred and additions and significant improvements are capitalized. The Organization capitalizes additions and significant improvements in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives ranging from 5-7 years.

Functional Allocation of Expenses

The Organization allocated its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expenditure classification.

Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization is also exempt from states taxes.

Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged.

SCLERODERMA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

1 **Summary of Significant Accounting Policies (continued)**

Use of Estimates and Assumptions

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Unconditional Promises to Give and Due from Affiliate

An allowance for doubtful accounts is provided when unconditional promises to give and due from affiliates are considered uncollectible. An allowance for uncollectible accounts has not been provided as it is the opinion of management that all amounts are fully collectible.

Investments

Investments with readily determinable fair values are carried at their fair value in the statement of financial position based on market value as determined by quoted market prices. Increases or decreases in market value are recorded as unrealized gains or losses on investments in the accompanying statement of activities.

Special Events

Special events revenue is shown net of related expenses in the accompanying statement of activities for the years ended December 31, as follows:

	<u>2009</u>	<u>2008</u>
Special events	\$ 236,663	\$ 161,179
Direct expenses	<u>(23,530)</u>	<u>(91,505)</u>
Net special events revenue	<u>\$ 213,133</u>	<u>\$ 69,674</u>

2 **Transactions with Affiliates**

The Organization receives funding from separately incorporated nonprofit organizations throughout the United States of America. The organizations share common goals and work in cooperation with the Scleroderma Foundation, Inc. Due from affiliates at December 31, 2009 and 2008 totaled \$298,408 and \$337,352, respectively. Total contributions from these affiliated organizations were \$410,213 and \$474,224, for the years ended December 31, 2009 and 2008, respectively.

3 **Unconditional Promises to Gives**

Unconditional promises to give at December 31, 2009 and 2008 represents \$124,384 and \$38,728 of bequests receivable within one year. Management is of the opinion that these amounts are fully collectible. Accordingly no provision is made for uncollectible amounts.

SCLERODERMA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

4 **Assets Held by Chapters**

The Organization administers chapter offices throughout the United States. The assets are owned by the Organization and provide oversight on all funds. The assets held by the chapters consisted of the following at December 31,:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalent	\$ 1,362,060	\$ 1,165,111
Marketable securities (see note 5)	<u>872,844</u>	<u>726,505</u>
Total assets held by chapters	<u>\$ 2,234,904</u>	<u>\$ 1,891,616</u>

5. **Grants Payable and Expense**

During the years ended December 31, 2009 and 2008, the Organization expended research grants to various medical facilities totaling \$1,634,844 and \$1,099,861 respectively. As of December 31, 2009 and 2008, the Organization had not funded \$1,838,705 and \$1,068,279 of these research grants, respectively.

6 **Investments (Fair Value Measurements)**

SFAS No. 157, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

- Level 1. Inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority.
- Level 2. Inputs are based primarily on quoted prices for similar assets in active or inactive markets.
- Level 3. Inputs have the lowest priority, as they are based on significant but unobservable inputs.

The Organization uses appropriate valuation techniques based on available inputs to measure the fair value of its investments. The Organization's investments are reported at fair value in the accompanying statements of financial position for the years ended:

Fair Value Measurement at Reporting Date

Quoted Prices in Active Markets for Identical Assets

<u>December 31, 2009</u>	<u>Fair Value</u>	<u>Level 1</u>
Marketable securities	<u>\$ 5,132,972</u>	<u>\$ 5,132,972</u>
<u>December 31, 2008</u>	<u>Fair Value</u>	<u>Level 1</u>
Marketable securities	<u>\$ 3,048,335</u>	<u>\$ 3,048,335</u>

SCLERODERMA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

7 **Furniture and Equipment**

Furniture and equipment consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Furniture and fixtures	\$ 77,556	\$ 77,556
Computer equipment	260,494	260,494
Office equipment	74,767	74,767
Leasehold improvements	8,395	8,395
Total	421,212	421,212
Less accumulated depreciation	(414,531)	(396,684)
Furniture and equipment, net	\$ 6,681	\$ 24,528

8 **Temporarily Net Assets**

At December 31, 2009 and 2008 temporarily restricted net assets were restricted to fund research programs.

9 **Endowment Fund**

Permanently restricted net assets as December 31, 2009 and 2008 consist of an endowment fund established in 2007 to support research for the disease Scleroderma. Contributions to the endowment fund are subject to donor restrictions that stipulate the original principal of the gift is to be held and invested by the Organization indefinitely and income from the fund is to be expended for the designated purpose. In accordance with donor restrictions, contributions to the endowment fund are classified as permanently restricted net assets.

The historic dollar value of those contributions must be maintained inviolate. Income from the fund is classified with temporarily restricted net assets until the purpose restriction is satisfied. When the purpose restriction is met, the net assets are reclassified to unrestricted net assets. The Organization has endowment funds with balances of \$1,542,375 and \$1,542,375 for the years ended December 31, 2009 and 2008, respectively.

The composition of endowment net assets for this fund and changes in the endowment as of December 31, 2009 and 2008 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2007	\$ -	\$ 437,032	\$ 437,032
Contributions	-	1,105,343	1,105,343
Investment income	22,927	-	22,927
Endowment net assets, December 31, 2008	22,927	1,542,375	1,565,302
Contributions	-	-	-
Investment income	41,331	-	41,331
Net appreciation/(depreciation)	122,833	-	122,833
Endowment net assets, December 31, 2009	\$ 187,091	\$ 1,542,375	\$ 1,729,466

SCLERODERMA FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

10 Retirement Plans

The Organization has in effect a 403(b) profit sharing plan covering substantially all eligible employees. Employees may contribute from 1% to 15% of their annual compensation to the plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Organization matches 100% of employee contributions up to a maximum of 3% of the employee's annual compensation. The Organization's matching contributions to the plan for the years ended December 31, 2009 and 2008 totaled \$13,432 and \$15,361, respectively.

11 Capital Leases

The Organization leases certain office equipment under agreements that are classified as capital leases. The cost of equipment under capital leases, included in the Statement of Financial Position as furniture and equipment was \$64,020 at December 31, 2009 and 2008. Accumulated amortization of the leased equipment at December 31, 2009 and 2008 was \$64,020 and \$58,800. Amortization of assets under capital leases are included in depreciation expense.

Future minimum lease payments required under the capital leases are zero.

12 Leases

The Organization leases office space under an operating lease expiring in December 2010. The lease provides for scheduled increases in base rent. The Organization has accrued for the scheduled rent increases and is amortizing this cost on a straight-line basis over the term of the lease. Rental costs for the years ended December 31, 2009 and 2008 were \$76,419 and \$80,087, respectively.

The Organization also rented office equipment under various short term operating leases and rental agreements during the years ended December 31, 2009 and 2008. Rent expense totaled \$65,438 and \$73,053, respectively.

The minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year as of December 31, 2009 are as follows:

2010	\$	96,451
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13 Concentration of Credit Risk

At December 31, 2009, three affiliates, each of whom accounted for more than 10% of the Organization's due from affiliates balance, represented 80% of total due from affiliates in aggregate.

At December 31, 2008, four affiliates, each of whom accounted for more than 10% of the Organization's due from affiliates balance, represented 89% of total due from affiliates in aggregate.

14 Reclassification

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial presentation. These reclassifications have no effect on previously reported net income.

15 Subsequent Events

The Organization has evaluated subsequent events through June 1, 2010, the date which the financial statements were available to be issued. There aren't any subsequent events that require disclosure.