

**FOUNDATION FOR ICHTHYOSIS
AND RELATED SKIN TYPES, INC.**

**FINANCIAL STATEMENTS
Year Ended September 30, 2013
(With Comparative Totals for 2012)**

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 12



INDEPENDENT AUDITORS' REPORT

Board of Directors
Foundation for Ichthyosis and Related Skin Types, Inc.

We have audited the accompanying financial statements of Foundation for Ichthyosis and Related Skin Types, Inc., a non-profit organization, which are comprised of the statement of financial position as of September 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Foundation for Ichthyosis and Related Skin Types, Inc., as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Foundation for Ichthyosis and Related Skin Types, Inc.'s 2012 financial statements, and our report dated January 17, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Baum, Smith & Clemens, LLP

Lansdale, PA
December 18, 2013

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
ASSETS		
Current		
Cash and cash equivalents	\$ 187,791	\$ 1,224,002
Investments	1,571,672	324,043
Prepaid expenses and miscellaneous	3,115	1,735
Receivables	25,866	-
Total current assets	1,788,444	1,549,780
Cash, permanently restricted	110,013	110,013
Furniture and equipment, net	5,472	4,833
Other assets	3,000	3,000
Total assets	\$ 1,906,929	\$ 1,667,626
LIABILITIES		
Current		
Accounts payable and accrued expenses	\$ 21,216	\$ 3,708
Total current liabilities	21,216	3,708
NET ASSETS		
Unrestricted		
Unrestricted	1,029,974	907,173
Board designated	218,373	217,632
Total unrestricted	1,248,347	1,124,805
Temporarily restricted	527,353	429,100
Permanently restricted	110,013	110,013
Total net assets	1,885,713	1,663,918
Total liabilities and net assets	\$ 1,906,929	\$ 1,667,626

See Accompanying Notes to Financial Statements

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2013</u>	<u>2012</u>
Support and revenue					
Contributions	\$ 466,394	\$ 297,789	\$ -	\$ 764,183	\$ 603,961
In-kind contributions	43,056	-	-	43,056	15,750
National conference	165	-	-	165	99,129
Investment income	42,297	13,255	-	55,552	66,125
Other income	4,428	-	-	4,428	6,689
Net assets, released from restriction	212,791	(212,791)	-	-	-
Total support and revenue	<u>769,131</u>	<u>98,253</u>	<u>-</u>	<u>867,384</u>	<u>791,654</u>
Expenses					
Program services	499,383	-	-	499,383	611,473
Management and general	64,750	-	-	64,750	54,067
Fundraising expenses	81,456	-	-	81,456	90,293
Total expenses	<u>645,589</u>	<u>-</u>	<u>-</u>	<u>645,589</u>	<u>755,833</u>
Change in net assets	<u>123,542</u>	<u>98,253</u>	<u>-</u>	<u>221,795</u>	<u>35,821</u>
Net assets, beginning of year	<u>1,124,805</u>	<u>429,100</u>	<u>110,013</u>	<u>1,663,918</u>	<u>1,628,097</u>
Net assets, end of year	<u>\$ 1,248,347</u>	<u>\$ 527,353</u>	<u>\$ 110,013</u>	<u>\$ 1,885,713</u>	<u>\$ 1,663,918</u>

See Accompanying Notes to Financial Statements

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	Program Services	Management & General	Fundraising	Total 2013	2012
Salaries, payroll taxes and other related costs	\$ 179,608	\$ 29,402	\$ 36,946	\$ 245,956	\$ 199,627
Bank charges	-	4,154	-	4,154	6,772
Board meetings	165	13	5	183	4,532
Conference	5,413	278	119	5,810	5,967
Depreciation	2,751	214	92	3,057	2,872
Dues and subscriptions	1,527	-	-	1,527	678
Grants	75,000	-	-	75,000	225,000
Grassroots	27,654	-	27,653	55,307	50,518
Insurance	-	3,595	-	3,595	3,456
Investment fees	-	13,160	-	13,160	-
Licenses	-	1,025	2,390	3,415	5,102
Membership assistance Fund	2,800	-	-	2,800	1,500
National conference	565	-	-	565	97,567
Other	19,012	360	78	19,450	(1,068)
Postage and shipping	6,801	312	1,933	9,046	9,595
Printing and publications	15,687	216	4,872	20,775	20,994
Professional fees	-	9,249	-	9,249	9,400
Rent and utilities	19,592	1,524	653	21,769	20,595
Research	-	-	-	-	16,502
Scientific meeting	32,000	-	-	32,000	3,527
Strategic initiatives	47,556	750	5,090	53,396	36,601
Telephone	2,511	195	84	2,790	2,498
Technology	3,901	303	130	4,334	3,125
Scholarship awards	11,250	-	-	11,250	13,649
Website management	45,590	-	1,411	47,001	16,824
	<u>\$ 499,383</u>	<u>\$ 64,750</u>	<u>\$ 81,456</u>	<u>\$ 645,589</u>	<u>\$ 755,833</u>

See Accompanying Notes to Financial Statements

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 221,795	\$ 35,821
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized gain on marketable securities	(20,502)	(49,474)
Depreciation	3,057	2,872
Changes in assets and liabilities:		
Prepaid expenses and miscellaneous	(1,380)	6,195
Receivables	(25,866)	-
Accounts payable and accrued expenses	17,508	(1,079)
	194,612	(5,665)
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Proceeds from sale of investments	2,140,135	-
Purchase of investments	(3,211,123)	-
Net transfer to investment accounts	(122,000)	-
Reinvestment of dividends and interest	(34,140)	(8,987)
Purchase of furniture and equipment	(3,695)	(621)
Assets transferred to permanently restricted cash	-	(39,810)
	(1,230,823)	(49,418)
Net cash used by investing activities		
Net change in cash	(1,036,211)	(55,083)
Beginning cash and cash equivalents	1,224,002	1,279,085
Ending cash and cash equivalents	\$ 187,791	\$ 1,224,002

Supplementary Disclosures of Cash Flows Information:

Cash paid during the year for:		
Income tax	\$ 180	\$ 34

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

The Foundation for Ichthyosis and Related Skin Types (The Organization), a California nonprofit corporation, is a national voluntary organization dedicated to helping families with the genetic skin disease collectively called ichthyosis. Its mission is to educate, inspire and connect those touched by ichthyosis and related disorders through emotional support, information, advocacy and research funding for better treatments and eventual cures.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents

Cash in bank and deposits in money market funds are considered cash for financial reporting purposes.

Cash and cash equivalents include highly liquid investments with a maturity of three months or less when purchased.

The cash for cash flow purposes is the operating cash balances.

Investments

Investments in marketable securities are reported at their fair value in the statement of financial position. Realized gains or losses and the unrealized appreciation (depreciation) on investments are included in the statements of activities.

The Organization's investments in marketable securities are subject to market risk. The degree and concentration of risk varies by the type of investment.

Furniture and Equipment

Furniture and equipment in excess of \$500 are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the respective assets. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the books and any resulting gain or loss is reflected in income for the period. Asset useful lives range from five to ten years.

Board Designated Assets

The Board has designated assets for research projects, strategic initiatives and conference scholarships.

Board designated unrestricted net assets are as follows:

Research projects - funds to be used to strengthen investigation into the causes, treatments and potential cures for Ichthyosis

Strategic Initiatives - funds are to be used for strategic initiatives to advance the mission of the Organization

Conference scholarships - funds will be used to help families who cannot afford various expenses to attend the national family conference

The income earned on these funds is retained in the board designated net assets and is not considered available for general operations.

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions

Support that is restricted by the donor is reported as unrestricted if the restriction expires in the reporting period in which the support is recognized. All other 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Management's Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing its financial statements. 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 were used.

Donated Services

The Organization recognizes donated services which create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization has recognized in-kind contributions of \$43,056 in the accompanying statement of activities for donated services received during the year.

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.

Income Taxes

The Organization is exempt from federal income tax under Sec. 501(c)(3) of the Internal Revenue Service (IRS) code. The Organization is also recognized by the Bureau of Charitable Organization of the Commonwealth of Pennsylvania as a charitable organization. Income which is not related to exempt purposes, less applicable deductions is subject to federal and state corporate income taxes. FIRST paid \$180 for unrelated business income taxes in 2013.

The Organization is required to recognize, measure, classify, and disclose in the financial statements uncertain tax positions taken or expected to be taken in the Organization's tax returns. Management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Generally the Organization is no longer subject to income tax examinations by tax authorities for fiscal years prior to 2010.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued which was December 18, 2013.

NOTE B: SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash in bank deposit accounts which at times exceed federally insured limits. No loss has been experienced in such accounts and the Organization does not believe it has significant credit risk on its cash balances.

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE C: INVESTMENTS

Investments held by the Organization at September 30, 2013 consist of the following:

Mutual funds - fixed income	\$ 510,185
Exchange traded funds - fixed income	690,221
Mutual funds - equity	119,140
Exchange traded funds - equity	193,366
Mutual funds - non-traditional	58,760
	<u>\$ 1,571,672</u>

Investment income, which includes money market earnings, is summarized as follows:

Dividends	\$ 34,140
Realized gains	337,748
Unrealized losses	(317,246)
Interest	910
	<u>\$ 55,552</u>

The Organization's investments have been approved by the Board of Directors and are in accordance with its investment policy. The primary investment objective of the Organization is to provide increased yield and long-term growth of capital to meet the future obligations of the Organization, with a secondary objective of providing the necessary income to meet the current operational needs. Thus, the long-term objective of the Organization's investments of funds is to maximize the real return, or the nominal return less inflation, of the assets over a complete market cycle with emphasis on preserving capital and reducing volatility through prudent diversification. Realized and unrealized gains and losses are computed using the average cost method, shown net and included in the Statements of Activities.

NOTE D: FAIR VALUE MEASUREMENT

The fair value measurement accounting literature, establishes a fair value hierarchy framework for measuring fair value. That hierarchy 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.
Level 2	<p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"> ▪ Quoted prices for similar assets in active markets; ▪ Quoted prices for identical or similar assets or liabilities in inactive markets; ▪ Inputs other than quoted prices that are observable for the asset or liability; ▪ Inputs that are derived principally from or corroborated by observable market data by correlation or other means. <p>If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE D: FAIR VALUE MEASUREMENT (Continued)

The asset'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.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Exchange traded funds (ETF): Valued at the daily closing price as reported by the fund. ETF's held by the Organization that are registered with the Securities and Exchange Commission. The ETF's held by the Organization are deemed to be actively traded.

Assets measured at fair value on a recurring basis are as follows at December 31, 2013:

	Level 1	Level 2	Level 3	Total
Mutual funds and ETFs	<u>\$ 1,571,672</u>	<u>-</u>	<u>-</u>	<u>\$ 1,571,672</u>

NOTE E: UNCONDITIONAL PROMISES RECEIVABLE

As of September 30, 2013 unconditional promises receivable within one year amounted to \$2,795. This amount is included as receivable on the Statement of Financial Position.

NOTE F: FURNITURE AND EQUIPMENT

Furniture and equipment consists of the following:

		Estimated useful lives in years
Computer equipment, furniture, and software	\$ 21,304	5 - 10
Less: accumulated depreciation	<u>15,832</u>	
	<u>\$ 5,472</u>	

Depreciation expense for the year ended September 30, 2013 was \$3,056.

NOTE G: GRANTS PAYABLE

The Organization awards research grants to universities and research institutions to support ichthyosis related research projects. The liability and related expenses are recorded when approved by the Organization's Board of Directors and the recipients are notified of their awards. Grants expense was \$75,000 for the year ended September 30, 2013. There were no grants payable at September 30, 2013.

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE H: RESTRICTED NET ASSETS

Temporarily restricted net assets held as of September 30 are available for specific purposes as follows:

Membership assistance program	\$ 5,515
UFIRST scholars program	20,572
Strategic initiatives	119,178
Research	<u>382,088</u>
	<u>\$ 527,353</u>

Temporarily Restricted Net Assets released for the year ended September 30, 2013 were as follows:

Purpose restrictions	<u>\$ 212,791</u>
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Permanently restricted net assets are maintained in perpetuity. The donors of these assets permit the organization to use all or part of the income earned for general or specific purposes. Permanently restricted net assets held as of September 30 are as follows:

Membership assistance program	\$ 10,000
Research	<u>100,013</u>
	<u>\$ 110,013</u>

NOTE I: ENDOWMENTS

The Organization's endowment consists of three donor-restricted funds (Edna and Myron Curl Endowment, Milstone General Research Endowment and the Jane Bukaty Membership Assistance Fund) that were established for research and member assistance. Net assets associated with endowment funds are classified and are reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law: The Organization's governing board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted in the State of California as 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 result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the 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 time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resource of the Organization
7. The investment policies of the Organization

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE I: ENDOWMENTS (Continued)

Spending Policy, Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the program supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Corpus of the endowment asset is held in perpetuity for Edna and Myron Curl Endowment, Milstone General Research Endowment and the Jane Bukaty Membership Assistance Fund based on donor-restriction. The endowment asset is invested in a savings account at a FDIC insured financial institution. Interest earned on the Edna and Myron Curl and Milstone General Research Endowments is appropriated to research and will be spent when the Organization's board of directors determine enough interest has accumulated to provide research grants. Interest earned on the Jane Bukaty Membership Assistance Fund is used to provide financial assistance to families with one or more affected individuals whose financial and reimbursement circumstances make obtaining adequate care and treatment difficult or impossible.

Endowment funds as of September 30, 2013 are composed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ 14,352	\$ 110,013	\$ 124,365

Changes in endowment funds for the year ended September 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowments net assets, beginning of the year	\$ -	\$ 14,579	\$ 110,013	\$ 124,592
Interest income	-	1,623	-	1,623
Additions	-	950	-	950
Appropriation of endowment assets for expenditure	-	(2,800)	-	(2,800)
Endowments net assets, end of year	\$ -	\$ 14,352	\$ 110,013	\$ 124,365

NOTE J: OPERATING LEASES

The Organization leases office space under an operating lease obligation. The lease expires September 30, 2015. The lease can be terminated with six months written notice after September 30, 2013.

Future minimum lease payments at September 30, 2013 are as follows:

2014	\$ 18,750
2015	14,400
	<u>\$ 33,150</u>

Rent expense was \$18,466 for the year ended September 30, 2013.

FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE K: SIGNIFICANT CONTRIBUTIONS

During 2013, FIRST recognized significant contributions totaling approximately \$100,000 from one Foundation. This contribution represents approximately 12% of the total support and revenues.

NOTE L: COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2012, from which the summarized information was derived.