

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

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**FINANCIAL STATEMENTS  
Year Ended September 30, 2012  
(With Comparative Totals for 2011)**

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

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**BAUM, SMITH & CLEMENS, LLP**  
CERTIFIED PUBLIC ACCOUNTS and BUSINESS ADVISORS



**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statement of financial position of Foundation for Ichthyosis and Related Skin Types, Inc., a non-profit organization, as of September 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 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 the Organization's 2011 financial statements and, in our report dated February 13, 2012; we expressed an unqualified opinion on those financial statements.

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 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 the 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 Foundation for Ichthyosis and Related Skin Types, Inc., as of September 30, 2012, 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.

*Baum, Smith & Clemens, LLP*

Lansdale, PA  
January 17, 2013

**FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR 2011)**

	2012	2011
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 1,224,002	\$ 1,279,085
Investments	324,043	265,583
Prepaid expenses and miscellaneous	1,735	7,930
Total current assets	1,549,780	1,552,598
Cash, permanently restricted	110,013	70,203
Furniture and equipment, net	4,833	7,083
Other assets	3,000	3,000
Total assets	\$ 1,667,626	\$ 1,632,884
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued expenses	\$ 3,708	\$ 4,787
Total current liabilities	3,708	4,787
<b>NET ASSETS</b>		
Unrestricted		
Unrestricted	907,173	778,689
Board designated	217,632	223,947
Total unrestricted	1,124,805	1,002,636
Temporarily restricted	429,100	555,258
Permanently restricted	110,013	70,203
Total net assets	1,663,918	1,628,097
Total liabilities and net assets	\$ 1,667,626	\$ 1,632,884

See Accompanying Notes to Financial Statements

**FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**  
**(WITH COMPARATIVE TOTALS FOR 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2012</u>	<u>2011</u>
<b>Support and revenue</b>					
Contributions	\$ 429,912	\$ 174,049	\$ -	\$ 603,961	\$ 480,786
In-kind contributions	15,750	-	-	15,750	17,375
National conference	99,129	-	-	99,129	-
Investment income	61,705	4,420	-	66,125	16,823
Other income	6,689	-	-	6,689	5,036
Net assets, released from restriction	304,627	(304,627)	-	-	-
<b>Total support and revenue</b>	<u>917,812</u>	<u>(126,158)</u>	<u>-</u>	<u>791,654</u>	<u>520,020</u>
<b>Expenses</b>					
Program services	611,473	-	-	611,473	434,801
Management and general	54,067	-	-	54,067	45,504
Fundraising expenses	90,293	-	-	90,293	59,558
<b>Total expenses</b>	<u>755,833</u>	<u>-</u>	<u>-</u>	<u>755,833</u>	<u>539,863</u>
<b>Change in net assets</b>	<u>161,979</u>	<u>(126,158)</u>	<u>-</u>	<u>35,821</u>	<u>(19,843)</u>
<b>Net assets re-characterized</b>	(39,810)	-	39,810	-	-
<b>Net assets, beginning of year</b>	<u>1,002,636</u>	<u>555,258</u>	<u>70,203</u>	<u>1,628,097</u>	<u>1,647,940</u>
<b>Net assets, end of year</b>	<u>\$ 1,124,805</u>	<u>\$ 429,100</u>	<u>\$ 110,013</u>	<u>\$ 1,663,918</u>	<u>\$ 1,628,097</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, 2012**  
**(WITH COMPARATIVE TOTALS FOR 2011)**

	Program Services	Management & General	Fundraising	Total 2012	2011
Salaries, payroll taxes and other related costs	\$ 141,861	\$ 27,673	\$ 30,093	\$ 199,627	\$ 196,600
Bank charges	-	6,772	-	6,772	3,063
Board meetings	3,852	453	227	4,532	1,133
Conference	5,073	-	894	5,967	4,822
Depreciation	2,441	287	144	2,872	3,086
Dues and subscriptions	678	-	-	678	787
Grants	225,000	-	-	225,000	150,000
Grassroots	13,108	-	37,410	50,518	24,095
Insurance	-	3,456	-	3,456	2,299
Licenses	-	-	5,102	5,102	3,252
Membership Assistance Fund	1,500	-	-	1,500	2,000
National conference	97,567	-	-	97,567	376
Other	3,613	394	175	4,182	3,295
Postage and shipping	5,955	776	2,864	9,595	9,332
Printing and publications	7,107	114	8,523	15,744	20,682
Professional fees	-	9,400	-	9,400	11,000
Rent and utilities	18,535	1,442	618	20,595	19,952
Research	16,502	-	-	16,502	21,460
Scientific meeting	3,527	-	-	3,527	52
Strategic initiatives	32,939	-	3,662	36,601	30,797
Telephone	2,248	175	75	2,498	2,056
Technology	-	3,125	-	3,125	4,908
Scholarship awards	13,649	-	-	13,649	6,500
Website management	16,318	-	506	16,824	18,316
	<u>\$ 611,473</u>	<u>\$ 54,067</u>	<u>\$ 90,293</u>	<u>\$ 755,833</u>	<u>\$ 539,863</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, 2012**  
**(WITH COMPARATIVE TOTALS FOR 2011)**

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 35,821	\$ (19,843)
Adjustments to reconcile change in net assets to net cash used provided in operating activities:		
Net unrealized (gain) loss on marketable securities	(49,474)	651
Depreciation	2,872	3,086
Changes in assets and liabilities:		
Prepaid expenses and miscellaneous	6,195	(1,283)
Other assets	-	1,100
Grants payable	-	(75,000)
Accounts payable and accrued expenses	(1,079)	-
Net cash used by operating activities	(5,665)	(91,289)
Cash flows from investing activities		
Reinvestment of dividends and interest	(8,987)	(7,886)
Purchase of furniture and equipment	(621)	-
Assets transferred to permanently restricted cash	(39,810)	-
Net cash used by investing activities	(49,418)	(7,886)
Net change in cash	(55,083)	(99,175)
Beginning cash and cash equivalents	1,279,085	1,378,260
Ending cash and cash equivalents	\$ 1,224,002	\$ 1,279,085

See Accompanying Notes to Financial Statements

**FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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**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.

**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.

**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.

**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 \$15,750 in the accompanying statement of activities for donated services received during the year.



**FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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

Cash and cash equivalents

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

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.

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 \$34 for unrelated business income taxes in 2012.

Tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. The Organization believes that it has appropriate support for the income tax positions taken on its tax returns. The Organization's open tax year audit periods are 2009 - 2011.

As of September 30, 2012, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Reclassifications

Certain amounts in the 2011 summarized information has been reclassified to conform with the 2012 presentation.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued which was January 17, 2013.

**NOTE B: SIGNIFICANT CONCENTRATIONS OF CREDIT RISK**

The Organization maintains cash in bank deposit accounts which, at times, may exceed federally insured limits set by the Federal Deposit Insurance Corporation (FDIC). Effective through December 31, 2012, all non-interest-bearing accounts are fully insured, regardless of the balance of the account and the ownership capacity of the funds. Accounts bearing interest are covered by the current FDIC limit for each bank. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

**FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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**NOTE C: INVESTMENTS**

Investments held by the Organization at September 30, 2012 consist of the following:

Mutual funds:	
500 Index	\$ 217,655
Intermediate-term bond	<u>106,388</u>
	<u>\$ 324,043</u>

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

Dividends	\$ 8,987
Unrealized gain	49,474
Interest	<u>7,664</u>
	<u>\$ 66,125</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**

FASB ASC 820, *Fair Value Measurement*, establishes a 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 three levels of the fair value hierarchy under FASB ASC 820 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"> <li>▪ Quoted prices for similar assets in active markets;</li> <li>▪ Quoted prices for identical or similar assets or liabilities in inactive markets;</li> <li>▪ Inputs other than quoted prices that are observable for the asset or liability;</li> <li>▪ Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li> </ul> <p style="margin-top: 10px;">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.

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.

**FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE D: FAIR VALUE MEASUREMENT (Continued)**

Following is a description of the valuation methodologies used for assets measured at fair value for 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities	<u>\$ 324,043</u>	-	-	<u>\$ 324,043</u>

**NOTE E: UNCONDITIONAL PROMISES RECEIVABLE**

As of September 30, 2012 unconditional promises receivable within one year amounted to \$1,735. This amount is included in prepaid and miscellaneous on the Statement of Financial Position.

**NOTE F: FURNITURE AND EQUIPMENT**

Furniture and equipment consists of the following:

		<u>Estimated useful lives in years</u>
Computer equipment & software	\$ 17,609	5 - 10
Less: accumulated depreciation	<u>12,776</u>	
	<u>\$ 4,833</u>	

Depreciation expense for the year ended September 30, 2012 was \$2,872.

**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 \$225,000 for the year ended September 30, 2012. There were no grants payable at September 30, 2012.

**NOTE H: RESTRICTED NET ASSETS**

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

Membership assistance program	\$ 7,817
UFIRST scholars program	30,828
Strategic initiatives	167,799
Research	<u>222,656</u>
	<u>\$ 429,100</u>

Temporarily Restricted Net Assets released for the year ended September 30, 2011 were as follows:

Purpose restrictions	<u>\$ 304,627</u>
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**FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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**NOTE H: RESTRICTED NET ASSETS (Continued)**

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. During the year ending September 30, 2012, a donor requested that a contribution that was made in the prior year and classified as unrestricted at that time, be moved to the endowment fund and be permanently restricted. This was considered a re-characterization of net assets and is shown in the Statement of Activities as net assets re-characterized. 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

Spending Policy, return Objectives and Risk Parameters: The Organization has adopted investment and spending polices 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.

**FOUNDATION FOR ICHTHYOSIS AND RELATED SKIN TYPES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE I: ENDOWMENTS (Continued)**

Endowment funds as of September 30, 2012 are composed as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	<u>\$ -</u>	<u>\$ 14,579</u>	<u>\$ 110,013</u>	<u>\$ 124,592</u>

Changes in endowment funds for the year ended September 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowments net assets, beginning of the year	\$ -	\$ 15,039	\$ 70,203	\$ 85,242
Interest income	-	540	-	540
Additions	-	500	-	500
Reclassification	-	-	39,810	39,810
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(1,500)</u>	<u>-</u>	<u>(1,500)</u>
Endowments net assets, end of year	<u>\$ -</u>	<u>\$ 14,579</u>	<u>\$ 110,013</u>	<u>\$ 124,592</u>

**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, 2012 are as follows:

2013	\$ 18,150
2014	18,750
2015	14,400
2016	4,800
	<u>\$ 56,100</u>

Rent expense was \$17,859 for the year ended September 30, 2012.

**NOTE K: SIGNIFICANT CONTRIBUTIONS**

During 2012, FIRST recognized significant contributions totaling approximately \$100,000 from one Foundation. This contribution represents approximately 13% of the total support and revenues.