

NATIONAL FOUNDATION FOR
ECTODERMAL DYSPLASIAS

FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
National Foundation for Ectodermal Dysplasias
Mascoutah, Illinois

We have audited the accompanying statements of financial position of National Foundation for Ectodermal Dysplasias (a non-profit corporation) as of December 31, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of National Foundation for Ectodermal Dysplasias as of December 31, 2006 and 2005, 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.

As described in Note 13 to the financial statements, the Foundation restated net assets to correct an error in the recognition, measurement, presentation, and disclosure of its net assets. Also as described in Note 14 to the financial statements, the Foundation changed its policy for determining cash equivalents.

Diel & Ferguson, LLC

February 19, 2007

IN AFFILIATION WITH



DIEL & FERGUSON FINANCIAL GROUP
[FINANCIAL • CONSULTING • CPA SERVICES]

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,314,296	\$ 762,616
Investments	577,474	412,703
Unconditional promises to give	10,495	
Prepaid expenses	<u>2,049</u>	<u>2,049</u>
	<u>1,904,314</u>	<u>1,177,368</u>
Property and Equipment:		
Office equipment	33,003	33,182
Accumulated depreciation	<u>(19,569)</u>	<u>(21,770)</u>
	<u>13,434</u>	<u>11,412</u>
Other Assets:		
Investments	2,824	4,063
Unconditional promises to give	<u>10,400</u>	<u> </u>
	<u>13,224</u>	<u>4,063</u>
 Total Assets	 <u>\$ 1,930,972</u>	 <u>\$ 1,192,843</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable		\$ 5,285
Payroll withholdings payable	\$ 126	2,205
Retirement company match payable	8,592	
Sales tax payable	155	76
Academic scholarship commitments		500
Research commitments	17,666	
Treatment commitments	304,020	237,640
Accrued expenses	<u>27,079</u>	<u>27,148</u>
Total Liabilities	<u>357,638</u>	<u>272,854</u>
Net Assets:		
Unrestricted		
Undesignated	1,450,715	796,633
Designated	110,767	123,356
Temporarily restricted	<u>11,852</u>	<u> </u>
Total Net Assets	<u>1,573,334</u>	<u>919,989</u>
Total Liabilities and Net Assets	<u>\$ 1,930,972</u>	<u>\$ 1,192,843</u>

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

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions						
Donations	\$ 1,387,465	\$ 43,070	\$ 1,430,535	\$ 780,309	\$ 48,482	\$ 828,791
Grants		108,809	108,809		54,409	54,409
In-kind materials, facilities and services	16,557	1,115	17,672	605		605
Conference registration fees	25,360		25,360	13,750		13,750
Sales of publications / promotional items	3,992		3,992	5,650		5,650
Special event revenue	159,777		159,777	168,074		168,074
Less: costs of direct benefits to donors	(124,119)		(124,119)	(61,474)		(61,474)
Interest and dividend income	66,578		66,578	33,348		33,348
Net unrealized and realized gain (loss) on investments	48,763		48,763	10,824		10,824
Net assets released from restrictions	141,142			102,891	(102,891)	
	<u>1,725,515</u>	<u>11,852</u>	<u>1,737,367</u>	<u>1,053,977</u>	<u>-</u>	<u>1,053,977</u>
EXPENSES:						
Program Services:						
Education	126,673		126,673	126,292		126,292
Family services	246,250		246,250	172,591		172,591
Treatment	308,661		308,661	320,432		320,432
Research	267,175		267,175	222,860		222,860
Total Program Services	<u>948,759</u>	<u>-</u>	<u>948,759</u>	<u>842,175</u>	<u>-</u>	<u>842,175</u>
Supporting Services:						
Management and general	73,686		73,686	58,096		58,096
Fundraising	61,577		61,577	50,382		50,382
Total Supporting Services	<u>135,263</u>	<u>-</u>	<u>135,263</u>	<u>108,478</u>	<u>-</u>	<u>108,478</u>
	<u>1,084,022</u>	<u>-</u>	<u>1,084,022</u>	<u>950,653</u>	<u>-</u>	<u>950,653</u>
Increase in net assets	641,493	11,852	653,345	103,324	-	103,324
Net assets beginning of year - restated for 2005	919,989	-	919,989	816,665	-	816,665
Net assets end of year	<u>\$ 1,561,482</u>	<u>\$ 11,852</u>	<u>\$ 1,573,334</u>	<u>\$ 919,989</u>	<u>\$ -</u>	<u>\$ 919,989</u>

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

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006

	PROGRAM SERVICES					SUPPORT SERVICES			
	Education	Family Services	Treatment	Research	Total	Management and General	Fundraising	Total	Total
Salaries and wages	\$ 60,768	\$ 80,588	\$ 56,639	\$ 60,858	\$ 258,853	\$ 29,559	\$ 29,340	\$ 58,899	\$ 317,752
Payroll taxes	4,855	6,456	4,486	4,825	20,622	2,328	2,375	4,703	25,325
Employee benefits	9,685	11,665	5,414	5,540	32,304	5,992	2,713	8,705	41,009
Total salaries and related expenses	75,308	98,709	66,539	71,223	311,779	37,879	34,428	72,307	384,086
Scholarships		24,500			24,500			-	24,500
Client assistance		9,429	228,560		237,989			-	237,989
Research funding				77,257	77,257			-	77,257
Bank / credit card fees			52	8	60	4,096		4,096	4,156
Board of Directors	3,487	3,524			7,011	756		756	7,767
Communications	764	1,086	724	764	3,338	382	362	744	4,082
Continuing education	539				539	20		20	559
Direct mail					-		9,447	9,447	9,447
Employee campaigns					-		1,465	1,465	1,465
Family conferences		78,874			78,874			-	78,874
Family support network		574			574			-	574
Insurance	739	973	700	739	3,151	389	350	739	3,890
Investment commissions / fees					-	392		392	392
Lodging and meals	382	42		40	464			-	464
Memberships	2,652			200	2,852	1,989		1,989	4,841
Miscellaneous					-		1,590	1,590	1,590
Newsletter	12,276				12,276			-	12,276
Office equipment	3,272	4,281	2,923	3,919	14,395	1,472	1,516	2,988	17,383
Office supplies	2,468	3,535	2,445	2,858	11,306	1,928	1,161	3,089	14,395
Postage	1,963	11,474	1,631	8,240	23,308	527	7,144	7,671	30,979
Printed / electronic information	16,035	1,754			17,789			-	17,789
Professional fees	10			2,570	2,580	17,392		17,392	19,972
Promotional items / AV	165				165	2,343	1,273	3,616	3,781
Public relations	200	28			228	1,165		1,165	1,393
Rent	2,584	3,400	2,448	2,584	11,016	1,360	1,224	2,584	13,600
Repairs and maintenance	1,038	1,366	983	1,038	4,425	546	492	1,038	5,463
Travel / meetings	1,105	484	60	94,049	95,698	163	326	489	96,187
Utilities	768	1,010	727	768	3,273	404	364	768	4,041
Depreciation	814	1,071	771	814	3,470	428	386	814	4,284
Loss on fixed asset disposals	104	136	98	104	442	55	49	104	546
Total expenses	\$ 126,673	\$ 246,250	\$ 308,661	\$ 267,175	\$ 948,759	\$ 73,686	\$ 61,577	\$ 135,263	\$ 1,084,022

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

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005

	PROGRAM SERVICES					SUPPORT SERVICES			
	Education	Family Services	Treatment	Research	Total	Management and General	Fundraising	Total	Total
Salaries and wages	\$ 56,262	\$ 74,028	\$ 53,300	\$ 56,261	\$ 239,851	\$ 29,611	\$ 26,650	\$ 56,261	\$ 296,112
Payroll taxes	4,134	5,439	3,916	4,134	17,623	2,175	1,958	4,133	21,756
Employee benefits	7,112	8,653	4,290	4,406	24,461	4,310	2,263	6,573	31,034
Total salaries and related expenses	67,508	88,120	61,506	64,801	281,935	36,096	30,871	66,967	348,902
Scholarships		24,000			24,000			-	24,000
Client assistance		10,567	242,908		253,475			-	253,475
Research funding				136,634	136,634			-	136,634
Bank / credit card fees	1,209	1,209	24	24	2,466	27	242	269	2,735
Board of Directors	2,977	2,977			5,954	662		662	6,616
Communications	773	1,017	732	773	3,295	407	366	773	4,068
Continuing education	1,713				1,713			-	1,713
Direct mail					-		11,353	11,353	11,353
Family conferences		20,200			20,200			-	20,200
Insurance	641	843	607	641	2,732	337	304	641	3,373
Lodging and meals	1,201				1,201			-	1,201
Memberships / meetings	2,703				2,703			-	2,703
Miscellaneous					-		869	869	869
Newsletter	11,692				11,692			-	11,692
Office equipment	2,107	2,773	1,997	2,107	8,984	1,109	998	2,107	11,091
Office supplies	1,988	2,616	1,883	1,988	8,475	1,046	941	1,987	10,462
Postage	10,097	10,097			20,194	225	2,020	2,245	22,439
Printed / electronic information	8,606	220			8,826			-	8,826
Professional fees					-	15,501		15,501	15,501
Promotional items / AV	2,728				2,728			-	2,728
Public relations	2,639				2,639			-	2,639
Rent	2,128	2,800	2,016	2,128	9,072	1,120	1,008	2,128	11,200
Repairs and maintenance	1,438	1,892	1,362	1,438	6,130	756	681	1,437	7,567
Scientific meetings			5,939	10,788	16,727			-	16,727
Travel	2,606	1,235			3,841			-	3,841
Utilities	650	856	616	650	2,772	342	308	650	3,422
Depreciation	888	1,169	842	888	3,787	468	421	889	4,676
Total expenses	\$ 126,292	\$ 172,591	\$ 320,432	\$ 222,860	\$ 842,175	\$ 58,096	\$ 50,382	\$ 108,478	\$ 950,653

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

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 653,345	\$ 103,324
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	4,284	4,676
Loss on fixed asset disposals	546	
Donated investments	(28,816)	(280,622)
Net unrealized and realized (gain) loss on investments	(48,763)	(10,824)
(Increase) decrease:		
Unconditional promises to give	(20,895)	
Increase (decrease):		
Accounts payable	(5,285)	(14,016)
Other payables	6,592	(7,684)
Commitments	83,546	135,435
Accrued expenses	(69)	4,560
	<u>644,485</u>	<u>(65,151)</u>
Net Cash Provided (Used) by Operating Activities		
 Cash Flows from Investing Activities:		
Purchase of property and equipment	(6,852)	(5,598)
Purchase of investments	(182,699)	(63,385)
Sale of investments	95,538	281,290
Return of capital	1,208	947
	<u>(92,805)</u>	<u>213,254</u>
Net Cash Provided (Used) by Investing Activities		
 Net Increase in Cash and Cash Equivalents	551,680	148,103
Cash and Cash Equivalents, Beginning of Year	<u>762,616</u>	<u>614,513</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,314,296</u>	<u>\$ 762,616</u>

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

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The National Foundation for Ectodermal Dysplasias d/b/a Skin and Dental Dysfunction Foundation (the "Foundation") is a non-profit Illinois corporation organized in 1981. The Foundation's mission is to be the authoritative resource for information on the ectodermal dysplasias ("ED") syndromes; provide services that meet the physical, emotional, informational, and social need of affected individuals and their families, and help them lead a normal life; and support research on the ectodermal dysplasias syndromes. The Foundation's revenues and other support are derived principally from contributions. Its activities reach out to individuals and families around the world but are conducted principally in the United States.

The Foundation has established the following program services:

Education

The Foundation's education efforts include publishing and distributing a variety of printed and electronic information that describes the ED syndromes, its cause and treatment. The Foundation also helps individuals and families educate teachers, school administrators, sports coaches and others about the physical challenges presented by ED syndromes and about ways to meet these challenges.

Family Services

The Foundation offers numerous family support services. The Foundation hosts national and regional conferences annually where individuals and families who are dealing with one of the ED syndromes can meet with care providers who are familiar with ED, as well as with other families. It also provides financial assistance to approve individuals who attend the National Family Conference. The staff at the Foundation is also available to answer questions or provide direction as needed. Other family services include assistance in navigating the insurance process of coverage of oral health care; awarding college scholarships to affected individuals; and providing listings of care providers when needed.

Treatment

The Foundation provides financial assistance for medical and dental related care to qualified individuals who are diagnosed with an ectodermal dysplasia syndrome. It also underwrites meetings that are relevant to care and treatment of this disorder.

Research

The Foundation provides grants for research in areas relevant to ectodermal dysplasia, such as treatment therapies, gene identification, and a cure. It also underwrites scientific meetings that are relevant to this disorder.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Foundation are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenditures are recognized when incurred.

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Foundation is subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. No permanently restricted assets were held during 2006 and 2005 and accordingly, these financials do not reflect any activity related to this class of net assets for 2006 and 2005.

(c) Cash and Cash Equivalents

For the statement of financial position and statement of cash flows, cash and cash equivalents consist of deposits in interest and non-interest bearing accounts with a local financial institution and deposits in money market accounts with investment brokers and a fund manager.

(d) Investments and Investment Return

Investments in equity securities having a readily determinable fair value and investments in all debt securities are carried at their fair values in the statement of financial position. The Foundation classifies investments with a due date expiring in the following fiscal year as current assets. Donated investments are recorded as contributions at their estimated fair values at the date of donation.

Investment return includes dividends, interest, and realized and unrealized gains and losses on investments. Investment returns are reflected in the statement of activities as unrestricted, unless the donor or relevant laws place temporary or permanent restrictions on its use.

(e) Property and Equipment

Property and equipment are recorded at cost when purchased, or if donated, at their estimated fair market value at date of donation. All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of each asset. Depreciation expense for the years ended December 31, 2006 and 2005 was \$4,284 and \$4,676, respectively.

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Academic Scholarship, Treatment, and Research Commitments

Unconditional grants or contributions to others are recorded as program expenses in the period the awards are authorized. Conditional grants or contributions to others are recorded when the conditions have been substantially met by the grantee.

(g) Compensated Absences

Vacation, funeral leave, and sick leave are considered expenditures in the year paid. Unused vacation and sick leave are not eligible to be carried over to the next year. Any unused vacation will be paid upon the employee's resignation or termination. Vacation accruals are recorded in the financial statements as an accrued expense, based on years of service and wage rates in effect at December 31, 2006 and 2005.

(h) Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or a 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.

Donated property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted assets at that time.

Unconditional promises to give are recognized as revenues or gains in the period received as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

(i) In-Kind Materials, Facilities and Services

Donated materials are recorded as contributions and as costs of direct benefits to donors or as expenses of the appropriate program or supporting service at their determinable fair value at the date of donation.

Donated facilities are recorded as contributions and expenses at the date of donation at the amount of (a) the fair rental value of the facilities if the Foundation receives the use of the facilities at no cost or (b) the fair rental value of the facilities less the Foundation's contractual lease obligation if it receives the use of the facilities at below-market rates.

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) In-Kind Materials, Facilities and Services (continued)

Donated services are recorded as contributions and expenses at their estimated fair value at the date of donation if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

(j) Functional Expenses

The cost of providing various programs and supporting services have been reported on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management.

(k) Income Taxes

The Foundation, a non-profit organization operating under Section 501(c)(3) of the Internal Revenue Code, is exempt from federal, state and local income taxes and, accordingly, no provision for income taxes is included in the financial statements. However, the Foundation is subject to federal income tax on any unrelated business taxable income. In addition, the Foundation qualifies as a public charity under sections 509(a)(1) and 170(b)(1)(A)(iv) of the Internal Revenue Code.

(l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, 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 these estimates.

(m) Reclassification s

The following expense reclassifications between program services have been made to the 2005 financial statement presentation to correspond to the current year's format: scholarships from Education to Family Services; family (client) assistance from Treatment to Family Services; and newsletter from Family Services to Education.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Regions Bank		
Non-interest bearing	\$ 57,209	\$ 60,350
Interest bearing		41,942
	<u>57,209</u>	<u>102,292</u>
A.G. Edwards & Sons, Inc.	1,223,996	628,663
Morgan Keegan & Company, Inc.	44	42
American Funds (Cash Management Trust of America -Class A)	<u>33,047</u>	<u>31,619</u>
	<u>\$ 1,314,296</u>	<u>\$ 762,616</u>

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 - CASH AND CASH EQUIVALENTS (continued)

The Foundation's deposits with the local financial institution exceeded the Federal Deposit Insurance Corporation limits of \$100,000 at various times during the years ended December 31, 2006 and 2005. Total uninsured deposit balances at December 31, 2006 and 2005 were \$5,061 and \$15,226, respectively. The Foundation maintains its cash with a high quality financial institution which the Foundation believes limits these risks.

NOTE 4 - INVESTMENTS

Investments consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Certificate of deposit	\$ 75,925	
Equity securities	25,886	\$ 13,370
Government agency securities	2,824	4,063
Mutual funds	<u>475,663</u>	<u>399,333</u>
	<u>\$ 580,298</u>	<u>\$ 416,766</u>

The government agency securities have been classified as noncurrent assets due to their maturity dates.

NOTE 5 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following pledges receivable at December 31, 2006:

Due in less than one year	\$ 10,495
Due in one to two years	<u>10,400</u>
	<u>\$ 20,895</u>

Pledges receivable of \$20,800 are from two members of the Board of Directors. The Foundation considers unconditional promises to give to be fully collectible; accordingly, no allowance for doubtful accounts is required.

In February 2005, the Foundation was notified it had been named a beneficiary in the will of a deceased donor. As of December 31, 2005, the Foundation did receive a partial distribution from the estate. However, management had not recorded the remainder of this unrestricted contribution due to the uncertainty of the fair value of the estate. During 2006, the Foundation received the final distribution from the estate.

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 - UNRESTRICTED NET ASSETS DESIGNATED BY BOARD

Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments. Board designated net assets are for the following items at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Academic scholarships	\$ 31,000	\$ 35,000
Dental database document	12,500	12,500
Kids Camp	13,383	24,356
Skin erosion follow-up	14,004	24,000
Access to Care follow-up	20,000	20,000
Lionel books to children to age ten	2,316	7,500
Treatment assistance program	5,000	
Rental of additional office space	12,564	
	<u>\$ 110,767</u>	<u>\$ 123,356</u>

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of cash, and are available for the following purposes at December 31, 2006:

Education program	\$ 1,796
Research program	<u>10,056</u>
	<u>\$ 11,852</u>

There were no temporarily restricted net assets at December 31, 2005.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by donors for the years ended December 31, 2006 and 2005 as follows:

	<u>2006</u>	<u>2005</u>
Education program	\$ 873	\$ 7,295
Family Services program	33,624	15,306
Treatment program	36,671	37,277
Research program	69,974	43,013
	<u>\$ 141,142</u>	<u>\$ 102,891</u>

NOTE 8 - RETIREMENT PLAN

The Foundation offers a SIMPLE individual retirement plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Foundation's contributions to the plan. Contribution expense was \$8,592 and \$8,269 for the years ended December 31, 2006 and 2005, respectively.

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 9 - CONCENTRATION OF SUPPORT AND REVENUE

The Foundation received approximately 24% and 31% of its support and revenue from donations and special event revenue, net of costs of direct benefits to donors, from its "Halloween Bash" fundraising event for the years ended December 31, 2006 and 2005, respectively.

The Foundation received approximately 37% of its support and revenue from a single unrestricted gift from the estate of a deceased donor for the year ended December 31, 2006.

The Foundation received approximately 24% of its support and revenue from a single unrestricted gift from one donor for the year ended December 31, 2005.

NOTE 10- SUPPLEMENTAL DISCLOSURE OF CASH FLOW STATEMENT

The following noncash investing transactions have been recorded by the Foundation, but not reflected in the statement of cash flows for:

December 31, 2006

- Disposal of office equipment with a cost basis of \$7,031 and accumulated depreciation \$6,485.

December 31, 2005

- Disposal of office equipment with a cost basis of \$9,829 and accumulated depreciation of \$9,829.

NOTE 11 - LEASE COMMITMENTS

The Foundation leases office space and equipment. All of the leases have initial non-cancelable lease terms in excess of one year and expire in various years through 2011. Future minimum lease payments at December 31, 2006 are as follows:

2007	\$ 31,374
2008	22,914
2009	7,227
2010	5,664
2011	687
	<u>\$ 67,866</u>

Rental expense for the operating leases was \$22,366 and \$17,978 for the years ended December 31, 2006 and 2005, respectively .

NATIONAL FOUNDATION FOR ECTODERMAL DYSPLASIAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES

Grants require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, the Board deems the contingency remote, since by accepting the grants and their terms, it has accommodated the objectives of the Foundation to the provision of the grant.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

The Foundation discovered an error in the recognition, measurement, presentation, and disclosure of its net assets as of December 31, 2004. The Foundation utilized fund accounting to segregate assets, liabilities, and fund balances into separate accounting entities associated with specific activities for internal recordkeeping up to December 31, 2005. The Foundation also utilized fund accounting for external financial reporting purposes as of and for the years ended December 31, 2004. Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*, however, establishes a financial reporting model based on net assets, classified solely on the basis of donor-imposed restrictions, and requires not-for-profit organizations' external financial reporting to focus on aggregate information about the entity as a whole, rather than on individual funds.

Due to the use of fund accounting for external reporting purposes, unrestricted net assets were understated and temporarily restricted net assets were overstated by \$661,001 as of December 31, 2004. The Foundation restated its unrestricted and temporarily restricted net assets as of December 31, 2004. The correction of the error had no effect on the total change in net assets at December 31, 2004.

NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLE

The Foundation changed its policy for determining cash equivalents during 2005. The Foundation previously classified interest bearing accounts held by the local financial institution and money market funds held by the investment brokers and fund manager as investments. Management believes the change more accurately reflects the liquidity of its assets.

The accounting policy change resulted in an increase of cash and cash equivalents and a decrease in investments of \$566,919 as of January 1, 2005. The accounting policy change had no effect on the change in net assets for 2005.