

International Rett Syndrome Foundation

**Financial Statements
December 31, 2011 and 2010,
and Independent Auditors' Report**

INTERNATIONAL RETT SYNDROME FOUNDATION
December 31, 2011 and 2010

Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 15



Independent Auditors' Report

To the Board of Trustees
International Rett Syndrome Foundation
Cincinnati, Ohio

We have audited the accompanying statements of financial position of International Rett Syndrome Foundation (IRSF) (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of IRSF's management. Our responsibility is to express an opinion on these financial statements based upon 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 above present fairly, in all material respects, the financial position of International Rett Syndrome Foundation at December 31, 2011 and 2010, 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.

Barnes, Dennig & Co., Ltd.

April 10, 2012

INTERNATIONAL RETT SYNDROME FOUNDATION

Statements of Financial Position December 31, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	\$ 3,281,944	\$ 3,484,819
Investments	2,410,449	2,419,365
Grants receivable	-	30,012
Pledges receivable, net allowance of \$10,000 for 2011 and 2010	14,030	25,012
Property and equipment, net	44,943	24,122
Inventory, net	11,374	28,409
Prepaid expenses and other assets	30,502	34,451
Beneficial interest in perpetual trust	18,441	19,602
	<hr/>	<hr/>
Total assets	<u>\$ 5,811,683</u>	<u>\$ 6,065,792</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 24,944	\$ 25,434
Accrued liabilities	15,729	27,884
Grants payable to researchers, net	2,900,216	3,178,718
	<hr/>	<hr/>
Total liabilities	<u>2,940,889</u>	<u>3,232,036</u>
Net Assets		
Unrestricted	1,838,323	1,987,974
Temporarily restricted	14,030	25,012
Permanently restricted	1,018,441	820,770
	<hr/>	<hr/>
Total net assets	<u>2,870,794</u>	<u>2,833,756</u>
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 5,811,683</u>	<u>\$ 6,065,792</u>

See accompanying notes to financial statements.

INTERNATIONAL RETT SYNDROME FOUNDATION

Statements of Activities Years Ended December 31, 2011 and 2010

	2011			2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Special events	\$ 2,647,259	\$ 40,672	\$ -	\$ 2,687,931	\$ 2,679,123	\$ 91,185	\$ -	\$ 2,770,308
Contributions	1,506,863	54,827	198,832	1,760,522	1,534,712	32,321	801,168	2,368,201
Government grants	180,000	-	-	180,000	367,938	-	-	367,938
In-kind revenue	162,182	-	-	162,182	514,102	-	-	514,102
Grant revenue	117,500	-	-	117,500	125,000	-	-	125,000
Conference registrations	76,895	-	-	76,895	74,763	-	-	74,763
Investment return	14,628	-	-	14,628	7,665	-	-	7,665
Merchandise sales, net	10,678	-	-	10,678	293	-	-	293
Change in beneficial interest in perpetual trust	-	-	(1,161)	(1,161)	-	-	523	523
Released from restriction	106,481	(106,481)	-	-	169,083	(169,083)	-	-
Total revenues	4,822,486	(10,982)	197,671	5,009,175	5,472,679	(45,577)	801,691	6,228,793
Operating expenses:								
Program	3,671,145	-	-	3,671,145	4,027,143	-	-	4,027,143
Administration	302,441	-	-	302,441	294,048	-	-	294,048
Fundraising	984,871	-	-	984,871	1,189,482	-	-	1,189,482
Total expenses	4,958,457	-	-	4,958,457	5,510,673	-	-	5,510,673
Operating income (loss)	(135,971)	(10,982)	197,671	50,718	(37,994)	(45,577)	801,691	718,120
Loss on inventory	13,680	-	-	13,680	-	-	-	-
Change in net assets	(149,651)	(10,982)	197,671	37,038	(37,994)	(45,577)	801,691	718,120
Net assets, beginning of year	1,987,974	25,012	820,770	2,833,756	2,025,968	70,589	19,079	2,115,636
Net assets, end of year	\$ 1,838,323	\$ 14,030	\$ 1,018,441	\$ 2,870,794	\$ 1,987,974	\$ 25,012	\$ 820,770	\$ 2,833,756

See accompanying notes to financial statements.

INTERNATIONAL RETT SYNDROME FOUNDATION

Statement of Functional Expenses Year Ended December 31, 2011

	Program				Fundraising		
	Family		Education	Total	Appeals and		Total
	Research	Support			General	Direct Special Events	
Grants to others	\$ 2,499,643	\$ -	\$ -	\$ 2,499,643	\$ -	\$ -	\$ -
Employee related costs	240,640	182,774	-	423,414	74,675	-	74,675
Outside services	80	10,156	239,458	249,694	23,552	54,501	78,053
Special events	775	2,310	1,341	4,426	-	297,194	297,194
Professional fees	31,050	73,575	4,150	108,775	116,600	9,345	125,945
Travel and meals	29,165	5,538	62,085	96,788	14,432	94,077	108,514
In-kind donations	-	-	-	-	5	128,823	128,828
Scientific symposiums	111,116	-	-	111,116	-	-	111,116
Bank and service fees	98	63	2,346	2,507	41,850	60,173	103,079
Clinics	95,133	-	-	95,133	-	-	95,133
Occupancy	36,110	6,401	100	42,611	35,810	1,013	36,823
Supplies and postage	1,325	4,388	14,017	19,730	5,536	25,728	31,274
Equipment and repairs	1,779	-	-	1,779	4,406	15,384	17,569
Miscellaneous expense	8,757	904	3,981	13,642	3,296	4,011	15,649
Bad debt	-	-	-	-	20,809	-	20,809
Insurance	35	35	-	70	11,941	685	12,656
Depreciation	1,817	-	-	1,817	7,818	-	9,635
Total expenses	\$ 3,057,523	\$ 286,144	\$ 327,478	\$ 3,671,145	\$ 293,937	\$ 690,934	\$ 4,958,457

See accompanying notes to financial statements.

INTERNATIONAL RETT SYNDROME FOUNDATION

Statement of Functional Expenses Year Ended December 31, 2010

	Program				Fundraising		
	Family		Education	Total	Appeals and		Total
	Research	Support			General	Direct Special Events	
Grants to others	\$2,730,969	\$ -	\$ -	\$2,730,969	\$ -	\$ -	\$ -
Employee related costs	315,912	181,503	-	497,415	71,426	-	71,426
Outside services	6,483	4,931	75,325	86,739	31,435	60,012	91,447
Special events	-	1,875	87,712	89,587	9,578	264,272	273,850
Professional fees	7,954	70,200	11,399	89,553	776	5,404	6,180
Travel and meals	31,610	4,677	19,447	55,734	858	153,020	153,878
In-kind donations	69,400	21,990	-	91,390	123,870	287,657	411,527
Scientific symposiums	191,693	-	-	191,693	-	-	-
Bank and service fees	9	-	2,374	2,383	48,699	54,815	61,627
Clinics	98,682	-	-	98,682	-	-	-
Occupancy	42,649	6,098	199	48,946	1,157	880	2,037
Supplies and postage	1,233	5,569	11,607	18,409	18,880	39,060	57,940
Equipment and repairs	11,591	1,157	-	12,748	12,070	16,989	29,059
Miscellaneous expense	7,062	1,139	2,899	11,100	8,065	3,997	12,062
Bad debt	-	-	-	-	10,000	-	10,000
Insurance	80	35	-	115	-	630	630
Depreciation	1,680	-	-	1,680	7,819	-	7,819
Total expenses	\$3,517,007	\$ 299,174	\$ 210,962	\$4,027,143	\$ 302,746	\$ 886,736	\$ 1,189,482
							\$5,510,673

See accompanying notes to financial statements.

INTERNATIONAL RETT SYNDROME FOUNDATION

Statements of Cash Flows Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 37,038	\$ 718,120
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	9,635	9,499
Noncash stock donations	-	(2,347)
Bad debt	20,809	10,000
Realized and unrealized gains on investments	(28)	(21)
Change in beneficial interest in perpetual trust	1,161	(523)
Contributions received restricted for long-term investment	(198,832)	(801,168)
Loss on inventory	13,680	-
Loss on disposal of property and equipment	5,879	-
Change in:		
Accounts receivable	30,012	(30,012)
Pledges receivable	(9,827)	35,577
Inventory	3,355	10,918
Prepaid expenses and other assets	3,949	3,256
Accounts payable	(490)	(10,492)
Accrued liabilities	(12,155)	3,948
Grants payable to researchers	(278,502)	1,166,257
Net cash provided by (used in) operating activities	<u>(374,316)</u>	<u>1,113,012</u>
Cash flows from investing activities		
Purchases of investments	(6,143)	(2,418,847)
Sales of investments	15,087	2,456,944
Purchases of property and equipment	(36,335)	-
Net cash provided by (used in) investing activities	<u>(27,391)</u>	<u>38,097</u>
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	<u>198,832</u>	<u>801,168</u>
Change in cash and cash equivalents	(202,875)	1,952,277
Cash and cash equivalents, beginning of year	<u>3,484,819</u>	<u>1,532,542</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,281,944</u></u>	<u><u>\$ 3,484,819</u></u>

See accompanying notes to financial statements.

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

International Rett Syndrome Foundation (IRSF) was founded as a not-for-profit organization in 1999 as The Rett Syndrome Research Foundation under the laws of the State of Ohio. The name was changed to International Rett Syndrome Foundation on July 1, 2007 when the organization was merged with International Rett Syndrome Association (IRSA) and commenced operations as IRSF. IRSF's mission is to fund research for treatments and a cure for Rett syndrome while enhancing the overall quality of life for those living with Rett syndrome by providing information, programs, and services. IRSF's revenue consists primarily of private donations in order to fund research grants and provide education.

International Rett Syndrome Foundation operates the following programs:

- **Research programs** include activities focused on finding a treatment and cure for Rett Syndrome and include items such as research grants, medical symposiums and support of Natural History Study Clinics.
- **Family Support program** includes activities focused on enhancing the overall lives of those afflicted with Rett Syndrome and their families and includes items such as an 800 phone number, regional representatives and family advisory boards.
- **Education** activities focused on providing information about and raising awareness of Rett Syndrome and includes activities such as the website, newsletters, and an annual family conference.
- **Administrative and general** include operating activities such as corporate, executive, finance and human resource activities.
- **Appeals and General** includes activities of fundraising such as general contributions and appeals, fundraising office costs and personnel.
- **Direct Special Events** include activities of specific fundraising events such as dinners, parties, golf outings and strollathons.

Financial Statement Presentation

The financial statements have been prepared in accordance with applicable generally accepted accounting principles (GAAP) for not-for-profit entities that require, among other things, the net assets to be classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of IRSF and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and may be utilized at the discretion of the Board of Trustees to support the IRSF's purposes and operations in accordance with its bylaws.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of IRSF satisfying the purpose or the passage of time. When a donor 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. Temporarily restricted net assets at December 31, 2011 and 2010 represent pledges for future years.

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (continued)

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the principal be maintained intact in perpetuity and that only the income from the investment thereof be expended either for the general purpose of IRSF or for purposes specified by the donor.

Cash and Cash Equivalents

IRSF considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of overnight repurchase agreements. IRSF maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. IRSF has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Investments and Investment Return

Investments in money market funds and debt securities are carried at fair value. Investments in certificates of deposit are carried at amortized cost. Investment return includes dividends, interest and realized and unrealized gains and losses on investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

IRSF's investments do not have a significant concentration of credit or market risk within any industry, specific institution or group of investments.

Pledges Receivable

Pledges receivable consists of unconditional promises to give in future years made by individuals, a private foundation and the Combined Federal Campaign. Pledges receivable are recorded at their fair value, which is estimated as the present value of estimated future collections. Pledges receivable as of December 31, 2011 and 2010 are expected to be collected within one year.

Property and Equipment

Property and equipment are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred.

Inventories

Inventories consist of educational material, such as reading books and handbooks, and other merchandise, such t-shirts and bracelets. Inventories are stated at the lower of cost or market determined by the first-in, first-out (FIFO) method. Management periodically reviews obsolete inventory and adjusts the reserve as necessary. As of December 31, 2011 and 2010, \$5,171 and \$85,000, respectively, was reserved.

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interest in Perpetual Trust

IRSF is the beneficiary under a perpetual trust administered by outside party. Prior to July 1, 2007, the beneficiary was IRSA. Under the terms of the trust, IRSF has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the principal of assets that are held in trust. These income distributions are unrestricted. This beneficial interest is recorded at the estimated value of the expected future cash flows, which represents the fair value of the trust assets. This beneficial interest is in funds held by a national foundation. The foundation generally invests in equity and bond mutual funds. IRSF's portion of these funds had a fair value of \$18,441 and \$19,602 at December 31, 2011 and 2010, respectively.

Grants Payable to Researchers

Grants payable to researchers is comprised of research and post-doctoral grants approved by the Board of Trustees but not yet distributed. Grants payable extended over a year as of December 31, 2011 and 2010 were recorded at their fair value and reported as liabilities in accordance with applicable GAAP for not-for-profit entities which is estimated by discounting using rates ranging from 0.12% to 0.32%.

Contributions

IRSF records gifts of cash and other assets at their fair value as of the date of contribution. Such donations are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor 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. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, IRSF reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and reported as contribution revenue. Conditional promises to give are recognized as revenues when the conditions on which they depend are substantially met.

Donated Services

IRSF records donated services as revenues in the period received only if the services received create or enhance non-financial assets or required specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended December 31, 2011 and 2010, \$20,450 and \$169,000, respectively, was received in donated services.

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind Donations

IRSF receives certain in-kind donations during the year, which are recorded at fair value as contribution revenue and an expense in the financial statements.

Government Fees and Grants

Support funded by grants is recognized as IRSF performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

IRSF is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and a similar provision of Ohio law. IRSF is not considered a private foundation. However, IRSF is subject to federal income tax on any unrelated business taxable income.

IRSF's Form 990 is subject to review and examination by Federal and state authorities. IRSF is not aware of any activities that would jeopardize its tax-exempt status. IRSF is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been reported on a functional basis in the accompanying statement of functional expenses. Expenses have been classified based upon the actual direct expenditures and cost allocations based upon estimates of time spent by IRSF personnel.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Event Evaluation

In preparing its financial statements, IRSF has evaluated events subsequent to the statement of financial position date through April 10, 2012, which is the date the financial statements were available to be issued.

Reclassifications

Certain 2010 balances have been reclassified to conform to the 2011 presentation.

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 2 INVESTMENTS AT FAIR VALUE

Under applicable GAAP for fair value measurements and disclosures, a three-level hierarchy is established for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The adoption did not have a material impact on the financial statements.

The three levels are defined as follows:

- Level 1 – Inputs are unadjusted quoted prices for identical assets in active markets.
- Level 2 – Inputs are observable quoted prices for similar assets in active markets.
- Level 3 – Inputs are unobservable and reflect management's best estimates of what market participants would use as fair value.

Certificates of deposit: Fair values are determined by reference to quoted market prices and other relevant information generated by market transactions. Certificates of deposit are categorized as using Level 1 inputs.

Money market funds: Valued at the net asset value ("NAV") of shares held by IRSF at year end. Money market funds are categorized as using Level 2 inputs.

Investments as of December 31 consisted of the following:

	2011	2010
Level 1:		
Certificates of deposit	\$ 856,143	\$ 850,000
Level 2:		
Money market funds	1,554,306	1,569,365
	<u>\$ 2,410,449</u>	<u>\$ 2,419,365</u>

There were no valuations using Level 3 inputs.

Investment return is comprised of the following:

	2011	2010
Interest and dividend income	\$ 14,600	\$ 7,644
Net realized and unrealized gains on investments	28	21
	<u>\$ 14,628</u>	<u>\$ 7,665</u>

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment as of December 31 consisted of the following:

	2011	2010
Computer equipment	\$ 75,426	\$ 47,491
Less accumulated depreciation	30,483	23,369
	<u>\$ 44,943</u>	<u>\$ 24,122</u>

NOTE 4 GRANTS PAYABLE TO RESEARCHERS

Grants payable to researchers were \$2,900,216 and \$3,178,718 as of December 31, 2011 and 2010, respectively. The following is a summary of grants authorized and payable to researchers at December 31:

	2011	2010
To be paid in 2012	\$ 2,151,466	\$ 2,578,503
To be paid in 2013	750,292	603,312
Gross grants payable to researchers	2,901,758	3,181,815
Less discounts on long-term grants	1,542	3,097
Grants payable to researchers, net	<u>\$ 2,900,216</u>	<u>\$ 3,178,718</u>

NOTE 5 IN-KIND DONATIONS

IRSF obtains in-kind donations for special event costs as well as administrative expenses. Generally the in-kind special event costs represent donated items to be used as auction items for events.

In-kind donations have been recorded as the following expenses for the years ended December 31, 2011 and 2010:

	2011	2010
Special event costs	\$ 128,823	\$ 265,667
Professional services	20,450	169,000
Office space	12,909	9,600
Research equipment	-	69,400
Administrative expenses	-	435
	<u>\$ 162,182</u>	<u>\$ 514,102</u>

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 6 OPERATING LEASES

IRSF leases office space in New York, New York under a noncancelable operating lease that expires in March 2012. Rent expense for this lease included in the statement of activities for the years ended December 31, 2011 and 2010 was \$35,200 and \$48,722, respectively.

The minimum lease payments in 2012 will be \$4,467.

On January 6, 2012, IRSF leased office space in Bethesda, Maryland under a noncancelable operating lease that expires July 31, 2013.

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS AND RELEASE FROM RESTRICTIONS

Temporarily restricted net assets of \$14,030 and \$25,012 as of December 31, 2011 and 2010, respectively, are available for periods after December 31, 2011 and 2010.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

	2011	2010
Purpose restriction accomplished		
Research	\$ 46,274	\$ 148,494
Time restrictions expired		
Passage of specified time	60,207	20,589
	<u>\$ 106,481</u>	<u>\$ 169,083</u>

NOTE 8 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of December 31, 2011 and 2010 of \$1,018,441 and \$820,770, respectively, are restricted to investment in perpetuity, the income of which is expendable to support general operations.

NOTE 9 SIGNIFICANT CONCENTRATIONS

During 2011 and 2010, IRSF received 14% and 11%, respectively, of revenues from two special events. A significant reduction in donations or cancellation of any of these special events could have significant impact on financial results for IRSF.

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 10 HELEN M. MCLORAIN ENDOWMENT FUND

In 2010, IRSF established the Helen M. McLoraine Endowment Fund. IRSF's endowment consists of donor-restricted contributions established for a variety of purposes. The beneficial interest in perpetual trust is not considered a component of the endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Effective June 1, 2009, Uniform Management of Institutional Funds Act (UMIFA) has been replaced by the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in the State of Ohio.

The Board of Trustees of IRSF follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was the applicable law in the state of Ohio as of December 31, 2009. UPMIFA provides guidance on matters concerning the governance and management of donor-restricted endowment funds. Under UPMIFA, the original value of donated gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument are classified as permanently restricted net assets. 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 Board of Directors.

Endowment Net Asset Composition and Changes in Endowment Net Assets

The endowment net asset composition by type of fund is as follows as of December 31:

	2011	2010
Permanently restricted donor-restricted endowment funds	\$ 1,000,000	\$ 801,168

The changes in endowment net assets for the years ended December 31, 2011 and 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2009	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	801,168	801,168
Endowment net assets, December 31, 2010	-	-	801,168	801,168
Contributions	-	-	198,832	198,832
Endowment net assets, December 31, 2011	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 10 HELEN M. MCLORAIN ENDOWMENT FUND (Continued)

Investment Policy

Endowment assets include those assets of donor-restricted funds that IRSF must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Spending Policy

IRSF's spending policy is to transfer all investment return into unrestricted net assets or temporarily restricted net assets if directed by the donor. The endowments are maintained at their historic value annually. If the endowments have investment losses, they are replenished to their historic value from unrestricted net assets.

Beginning January 1, 2011, IRSF's Board of Trustees, by majority vote, may withdraw for IRSF's general operating purposes up to 5% of the endowment each calendar year. The value of the endowment shall be based on the average monthly value of the endowment as of the preceding 12 months of the prior calendar year, or otherwise calculated in accordance with Ohio law.

Beginning January 1, 2012, IRSF's Board of Trustees, by majority vote, may withdraw up to an additional 5% of the endowment (as computed above) in any calendar year. This withdrawal may be authorized if a specific extraordinary opportunity arises that merits such additional distribution. However, the additional distribution may not cause the endowment value to fall below the original contribution amount.