

International Rett Syndrome Foundation

**Financial Statements
December 31, 2010 and 2009,
and Independent Auditors' Report**

INTERNATIONAL RETT SYNDROME FOUNDATION
December 31, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Barnes, Dennig & Co., Ltd.

March 25, 2011

INTERNATIONAL RETT SYNDROME FOUNDATION

Statements of Financial Position December 31, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 3,484,819	\$ 1,532,542
Investments	2,419,365	2,455,094
Grants receivable	30,012	-
Pledges receivable, net allowance of \$10,000 and \$-0- for 2010 and 2009, respectively	25,012	70,589
Property and equipment, net	24,122	33,621
Inventory, net	28,409	39,327
Prepaid expenses and other assets	34,451	37,707
Beneficial interest in perpetual trust	19,602	19,079
	\$ 6,065,792	\$ 4,187,959
Total assets		
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 25,434	\$ 35,926
Accrued liabilities	27,884	23,936
Grants payable to researchers, net	3,178,718	2,012,461
	3,232,036	2,072,323
Total liabilities		
 Net Assets		
Unrestricted	1,987,974	2,025,968
Temporarily restricted	25,012	70,589
Permanently restricted	820,770	19,079
	2,833,756	2,115,636
Total net assets		
Total liabilities and net assets	\$ 6,065,792	\$ 4,187,959

See accompanying notes to financial statements.

INTERNATIONAL RETT SYNDROME FOUNDATION

**Statements of Activities
Years Ended December 31, 2010 and 2009**

	2010			2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Special events	\$ 2,679,123	\$ 91,185	\$ -	\$ 2,770,308	\$ 2,673,648	\$ 294,059	\$ -	\$ 2,967,707
Contributions	1,534,712	32,321	801,168	2,368,201	1,130,357	114,179	-	1,244,536
In-kind revenue	514,102	-	-	514,102	329,080	-	-	329,080
Government grants	367,938	-	-	367,938	65,152	-	-	65,152
Grant revenue	125,000	-	-	125,000	-	-	-	-
Conference registrations	74,763	-	-	74,763	39,665	-	-	39,665
Investment return	7,665	-	-	7,665	10,109	-	-	10,109
Merchandise sales, net	293	-	-	293	7,677	-	-	7,677
Other	-	-	-	-	1,300	-	-	1,300
Change in beneficial interest in perpetual trust	-	-	523	523	-	-	2,641	2,641
Released from restriction	169,083	(169,083)	-	-	353,597	(353,597)	-	-
Total revenues	5,472,679	(45,577)	801,691	6,228,793	4,610,585	54,641	2,641	4,667,867
Expenses:								
Program	4,025,975	-	-	4,025,975	3,104,605	-	-	3,104,605
Administration	294,048	-	-	294,048	274,691	-	-	274,691
Fundraising	1,190,650	-	-	1,190,650	933,465	-	-	933,465
Total expenses	5,510,673	-	-	5,510,673	4,312,761	-	-	4,312,761
Change in net assets	(37,994)	(45,577)	801,691	718,120	297,824	54,641	2,641	355,106
Net assets, beginning of year	2,025,968	70,589	19,079	2,115,636	1,728,144	15,948	16,438	1,760,530
Net assets, end of year	\$ 1,987,974	\$ 25,012	\$ 820,770	\$ 2,833,756	\$ 2,025,968	\$ 70,589	\$ 19,079	\$ 2,115,636

See accompanying notes to financial statements.

INTERNATIONAL RETT SYNDROME FOUNDATION

**Statement of Functional Expenses
Year Ended December 31, 2010**

	Program				Fundraising			Total
	Family		Education	Total	Appeals and		Direct Special	
	Research	Support			Administrative	General		
Grants to others	\$ 2,730,969	\$ -	\$ -	\$ 2,730,969	\$ -	\$ -	\$ -	\$ 2,730,969
Employee related costs	314,744	181,503	-	496,247	118,057	72,594	-	686,898
In-kind donations	69,400	21,990	-	91,390	10,035	123,870	-	512,952
Special events	-	1,875	87,712	89,587	50	9,578	287,657	363,487
Travel and meals	31,610	4,677	19,447	55,734	14,448	858	153,020	224,060
Scientific symposiums	191,693	-	-	191,693	-	-	-	191,693
Outside services	6,483	4,931	75,325	86,739	5,555	31,435	60,012	183,741
Professional fees	7,954	70,200	11,399	89,553	37,062	776	5,404	132,795
Equipment and repairs	11,591	1,157	-	12,748	7,717	12,070	16,989	49,524
Bank and service fees	9	-	2,374	2,383	48,699	6,812	54,815	112,709
Clinics	98,682	-	-	98,682	-	-	-	98,682
Occupancy	42,649	6,098	199	48,946	33,858	1,157	880	84,841
Supplies and postage	1,233	5,569	11,607	18,409	6,523	18,880	39,060	82,872
Miscellaneous expense	7,062	1,139	2,899	11,100	485	8,065	3,997	23,647
Insurance	80	35	-	115	11,559	-	630	12,304
Depreciation	1,680	-	-	1,680	-	7,819	-	9,499
Bad debt	-	-	-	-	-	10,000	-	10,000
Total expenses	\$ 3,515,839	\$ 299,174	\$ 210,962	\$ 4,025,975	\$ 294,048	\$ 303,914	\$ 886,736	\$ 5,510,673

See accompanying notes to financial statements.

INTERNATIONAL RETT SYNDROME FOUNDATION

**Statement of Functional Expenses
Year Ended December 31, 2009**

	Program				Total	Fundraising			Total
	Family		Education	Administrative		General	Events	Direct Special	
	Research	Support							
Grants to others	\$ 2,014,902	\$ -	\$ -	\$ -	\$ 2,014,902	\$ -	\$ -	\$ -	\$ 2,014,902
Employee related costs	274,779	122,616	-	96,337	397,395	85,326	-	85,326	579,058
In-kind donations	-	-	-	11,315	-	4,189	256,774	260,963	272,278
Special events	-	1,035	24,440	238,000	25,475	-	304,072	304,072	329,785
Travel and meals	7,891	2,870	105,428	6,299	116,189	5,048	105,611	110,659	233,147
Scientific symposiums	167,639	-	-	-	167,639	-	-	-	167,639
Outside services	1,693	3,231	109,083	3,900	114,007	33,052	48,374	81,426	199,333
Professional fees	-	71,848	500	51,602	72,348	-	11,925	11,925	135,875
Equipment and repairs	7,632	930	-	5,662	8,562	13,530	13,170	26,700	40,924
Bank and service fees	-	-	349	53,005	349	399	8,951	9,350	62,704
Clinics	110,901	-	-	-	110,901	-	-	-	110,901
Occupancy	39,278	5,430	-	17,672	44,708	229	30	259	62,639
Supplies and postage	3,049	5,349	8,332	12,665	16,730	5,466	24,531	29,997	59,392
Miscellaneous expense	9,171	5,891	439	5,736	15,501	1,157	2,157	3,314	24,551
Insurance	(136)	35	-	10,260	(101)	-	816	816	10,975
Depreciation	-	-	-	-	-	8,658	-	8,658	8,658
Total expenses	\$2,636,799	\$219,235	\$ 248,571	\$ 274,691	\$3,104,605	\$ 157,054	\$ 776,411	\$ 933,465	\$ 4,312,761

See accompanying notes to financial statements.

INTERNATIONAL RETT SYNDROME FOUNDATION

**Statements of Cash Flows
Years Ended December 31, 2010 and 2009**

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 718,120	\$ 355,106
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	9,499	8,658
Noncash stock donations	(2,347)	(19,540)
Bad debt	10,000	-
Realized and unrealized gains on investments	(21)	(55)
Beneficial interest in perpetual trust	(523)	(2,641)
Contributions received restricted for long-term investment	(801,168)	-
Change in:		
Accounts receivable	(30,012)	16,065
Pledges receivable	35,577	(54,641)
Inventory	10,918	(9,182)
Prepaid expenses and other assets	3,256	(17,782)
Accounts payable	(10,492)	16,744
Accrued liabilities	3,948	(4,525)
Grants payable to researchers	1,166,257	127,095
Net cash provided by operating activities	1,113,012	415,302
Cash flows from investing activities		
Purchases of investments	(2,418,847)	(5,421)
Sales of investments	2,456,944	2,524
Net cash provided by (used in) investing activities	38,097	(2,897)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	801,168	-
Change in cash and cash equivalents	1,952,277	412,405
Cash and cash equivalents, beginning of year	1,532,542	1,120,137
Cash and cash equivalents, end of year	\$ 3,484,819	\$ 1,532,542

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, 2010 and 2009 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, 2010 and 2009, 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, 2010 and 2009 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, 2010 and 2009, \$85,000 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 \$19,602 and \$19,079 at December 31, 2010 and 2009, 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. Long-term grants payable as of December 31, 2010 and 2009 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 0.32% to 0.47%.

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, 2010 and 2009, \$147,010 and \$9,535, 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 March 25, 2011, which is the date the financial statements were available to be issued.

Reclassifications

Certain 2009 balances have been reclassified to conform to the 2010 presentation.

INTERNATIONAL RETT SYNDROME FOUNDATION

**Notes to Financial Statements
(Continued)**

NOTE 2 INVESTMENTS

Investments as of December 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
Money market	\$ 1,569,365	\$ 2,454,094
Certificates of deposit	850,000	-
Corporate bonds	-	1,000
	<u>\$ 2,419,365</u>	<u>\$ 2,455,094</u>

Investment return is comprised of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 7,644	\$ 10,054
Net realized and unrealized gains on investments	21	55
	<u>\$ 7,665</u>	<u>\$ 10,109</u>

NOTE 3 PROPERTY AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Computer equipment	\$ 47,491	\$ 47,491
Less accumulated depreciation	23,369	13,870
	<u>\$ 24,122</u>	<u>\$ 33,621</u>

NOTE 4 GRANTS PAYABLE TO RESEARCHERS

Grants payable to researchers were \$3,178,718 and \$2,012,461 as of December 31, 2010 and 2009, respectively.

The following is a summary of grants authorized and payable to researchers at December 31:

	<u>2010</u>	<u>2009</u>
To be paid in less than one year	\$ 2,578,503	\$ 1,454,028
To be paid in one to five years	603,312	562,080
Gross grants payable to researchers	3,181,815	2,016,108
Less discounts on long-term grants	3,097	3,647
Grants payable to researchers, net	<u>\$ 3,178,718</u>	<u>\$ 2,012,461</u>

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

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 2009, a company owned by an IRSF board member provided office space and paid administrative expenses for IRSF totaling \$11,315.

In-kind donations have been recorded as the following expenses for the years ended December 31, 2010 and 2009:

	2010	2009
Special event costs	\$ 287,657	\$ 256,774
Professional services	147,010	9,535
Research equipment	69,400	50,000
Office space	9,600	9,500
Administrative expenses	435	1,815
Postage and shipping	-	1,456
	\$ 514,102	\$ 329,080

NOTE 6 RELATED PARTY TRANSACTIONS

Thru October 2009, IRSF was associated with Reading Rock Group through shared board member. Reading Rock Group bills IRSF for certain office expenses and employee benefits. IRSF paid Reading Rock Group \$25,497 in 2009.

NOTE 7 OPERATING LEASES

IRSF leases office space under noncancelable operating leases that expire in various years through 2011. Rent expense for these leases included in the statement of activities for the years ended December 31, 2010 and 2009 was \$48,722 and \$50,156, respectively.

Future annual minimum lease payments at December 31, 2010 were \$37,200 for 2011.

NOTE 8 RETIREMENT PLANS

IRSF has a 401(k) plan covering substantially all employees. Under the plan, employees are allowed to make individual contributions. IRSF matched contributions up to 3% of participant's salary until February 1, 2009. IRSF contributions totaled \$-0- and \$644 in 2010 and 2009, respectively.

NOTE 9 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31 are available for the following purposes or periods:

	2010	2009
For periods after December 31	\$ 25,012	\$ 20,589
Research	-	50,000
	\$ 25,012	\$ 70,589

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 10 NET ASSETS RELEASED FROM RESTRICTIONS

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

	2010	2009
Purpose restriction accomplished		
Research	\$ 149,011	\$ 337,649
Time restrictions expired		
Passage of specified time	20,589	15,948
	\$ 169,600	\$ 353,597

NOTE 11 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of December 31, 2010 and 2009 of \$820,770 and \$19,079, respectively, are restricted to investment in perpetuity, the income of which is expendable to support general operations.

NOTE 12 FAIR VALUE MEASUREMENTS

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.

Corporate bonds: Fair values are estimated using recently executed transactions and market price quotations. Corporate bonds are categorized as using Level 2 inputs.

Perpetual trusts: Fair values are determined by calculating the present value of the future distributions expected to be received. Perpetual trusts are categorized as using Level 3 inputs.

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 12 FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes assets measured at fair value on a recurring basis at December 31:

	2010	2009
Level 1:		
Certificates of deposit	\$ 850,000	\$ -
Level 2:		
Money market funds	1,569,365	2,454,094
Corporate bonds	-	1,000
Level 3:		
Beneficial interest in perpetual trust	19,602	19,079
	\$ 1,588,967	\$ 2,474,173

The following table is a reconciliation of the beneficial interest in perpetual trust measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31:

Balance December 31, 2008	\$ 16,438	
Change in fair value	2,641	
Balance December 31, 2009	19,079	
Change in fair value	523	
Balance December 31, 2010	\$ 19,602	

NOTE 13 SIGNIFICANT CONCENTRATIONS

During 2010 and 2009, IRSF received 11% and 18%, 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.

NOTE 14 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.

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 14 HELEN M. MCLORAINE ENDOWMENT FUND (Continued)

Interpretation of Relevant Law (continued)

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, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 801,168	\$ 801,168

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	801,168	801,168
Endowment net assets, end of year	\$ -	\$ -	\$ 801,168	\$ 801,168

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.

INTERNATIONAL RETT SYNDROME FOUNDATION

Notes to Financial Statements (Continued)

NOTE 14 HELEN M. MCLORAINE ENDOWMENT FUND (Continued)

Spending Policy (continued)

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.