



FINANCIAL STATEMENTS

Year Ended June 30, 2005

with

Independent Auditors' Report

NATIONAL PSORIASIS FOUNDATION

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	6
Notes to Financial Statements	8

Independent Auditors' Report

The Board of Trustees
National Psoriasis Foundation

We have audited the accompanying statement of financial position of National Psoriasis Foundation as of June 30, 2005 and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from financial statements as of and for the year ended June 30, 2004. Those financial statements were audited by us, and our report dated September 7, 2004 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Psoriasis Foundation as of June 30, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hoffman, Stewart & Schmidt, P.C.

August 25, 2005

NATIONAL PSORIASIS FOUNDATION

Statement of Financial Position

June 30, 2005 <i>(With Comparative Amounts for 2004)</i>	2005	2004
ASSETS		
Cash and cash equivalents	\$ 1,127,931	\$ 1,180,514
Investments <i>(Note 3)</i>	575,188	355,351
Accounts receivable	66,151	96,965
Grants receivable	21,956	-
Pledges receivable - net <i>(Note 4)</i>	956,789	986,673
Legacies and bequests receivable <i>(Note 5)</i>	56,188	111,508
Inventory of literature	75,641	48,620
Prepaid expenses	110,435	65,739
Security deposits	23,570	22,853
Furniture and equipment - net of accumulated depreciation of \$463,137 and \$396,845 in 2005 and 2004, respectively	<u>115,666</u>	<u>159,971</u>
Total assets	<u><u>\$ 3,129,515</u></u>	<u><u>\$ 3,028,194</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 211,655	\$ 107,191
Grants payable <i>(Note 6)</i>	110,000	285,000
Accrued payroll, payroll taxes and withholdings	64,524	52,788
Accrued vacation pay	80,507	69,826
Deferred income - special projects <i>(Note 7)</i>	<u>31,274</u>	<u>80,526</u>
Total liabilities	497,960	595,331
Commitments <i>(Note 8)</i>		
Net assets (deficit):		
Unrestricted:		
Undesignated	205,115	(79,631)
Designated <i>(Note 9)</i>	<u>1,122,817</u>	<u>1,075,989</u>
	1,327,932	996,358
Temporarily restricted <i>(Note 10)</i>	<u>1,303,623</u>	<u>1,436,505</u>
Total net assets	<u><u>2,631,555</u></u>	<u><u>2,432,863</u></u>
Total liabilities and net assets	<u><u>\$ 3,129,515</u></u>	<u><u>\$ 3,028,194</u></u>

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

NATIONAL PSORIASIS FOUNDATION

Statement of Activities

Year Ended June 30, 2005 (With Comparative Totals for 2004)

	Unrestricted	Temporarily Restricted	Total	
			2005	2004
Revenue, gains, and other support:				
Individual contributions	\$ 1,402,125	\$ 821,944	\$ 2,224,069	\$ 1,914,206
Corporate contributions and educational grants	1,779,186	136,009	1,915,195	2,564,078
Foundation contributions	-	91,000	91,000	72,410
Legacies and bequests	14,319	-	14,319	160,806
Sales of patient education materials	83,497	-	83,497	18,117
Magazine advertising	192,053	-	192,053	288,181
Professional education course fees	48,602	-	48,602	14,280
Clinical study mailing reimbursements	58,695	-	58,695	7,294
Interest and dividends	18,337	-	18,337	16,790
Gain on investments	7,556	-	7,556	33,823
Other	24,927	-	24,927	32,277
Net assets released from restrictions (Note 11)	1,181,835	(1,181,835)	-	-
Total revenue, gains, and other support	4,811,132	(132,882)	4,678,250	5,122,262
Expenses:				
Public education	1,350,527	-	1,350,527	1,748,424
Patient services	466,160	-	466,160	483,414
Professional education	582,495	-	582,495	618,403
Community services	268,579	-	268,579	232,431
Research	472,117	-	472,117	620,891
Management and general	529,862	-	529,862	551,488
Fund-raising	809,818	-	809,818	690,570
Total expenses	4,479,558	-	4,479,558	4,945,621
Increase (decrease) in net assets	331,574	(132,882)	198,692	176,641
Net assets, beginning of year	996,358	1,436,505	2,432,863	2,256,222
Net assets, end of year	\$ 1,327,932	\$ 1,303,623	\$ 2,631,555	\$ 2,432,863

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

NATIONAL PSORIASIS FOUNDATION

Statement of Functional Expenses

Year Ended June 30, 2005 (With Comparative Totals for 2004)

	Program Services					
	Public Education	Patient Services	Professional Education	Community Services	Research	Total
Salaries	\$ 528,959	\$ 290,387	\$ 180,939	\$ 105,952	\$ 55,258	\$ 1,161,495
Employee benefits	55,086	28,021	22,360	8,716	4,974	119,157
Payroll taxes	51,655	28,290	17,746	10,364	5,410	113,465
Occupancy	99,898	48,420	25,068	15,667	8,207	197,260
Telecommunications	17,079	4,936	2,805	2,068	1,157	28,045
Awards and grants	1,447	2,227	-	-	172,500	176,174
Conferences and meetings	76,677	5,978	106,454	7,343	32,425	228,877
Printing and publications	245,089	10,075	77,586	62,666	16,985	412,401
Postage and handling	100,988	4,271	21,734	10,445	14,841	152,279
Travel	50,550	10,364	71,024	17,327	49,549	198,814
Professional and contract services	30,600	4,157	24,499	14,823	105,344	179,423
Supplies	17,963	7,323	8,917	2,458	1,066	37,727
Equipment maintenance and repair	13,078	6,873	9,419	3,932	1,327	34,629
Dues and subscriptions	3,477	1,001	787	846	254	6,365
Staff education and training	1,999	742	565	1,052	132	4,490
Insurance	6,749	3,781	2,581	1,379	729	15,219
Reporting and filing fees	2,979	1,591	1,189	537	295	6,591
Bank charges	574	-	-	-	-	574
Depreciation	37,202	7,563	5,012	2,613	1,384	53,774
Other	8,478	160	3,810	391	280	13,119
Bad debts	-	-	-	-	-	-
	<u>\$ 1,350,527</u>	<u>\$ 466,160</u>	<u>\$ 582,495</u>	<u>\$ 268,579</u>	<u>\$ 472,117</u>	<u>\$ 3,139,878</u>

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

Supporting Services				
Management and General	Fund- raising	Total	Total Expenses	
			2005	2004
\$ 227,207	\$ 314,284	\$ 541,491	\$ 1,702,986	\$ 1,738,333
24,097	20,055	44,152	163,309	218,665
22,106	30,766	52,872	166,337	165,591
48,867	52,299	101,166	298,426	287,201
7,147	5,922	13,069	41,114	46,529
-	-	-	176,174	479,778
24,337	17,129	41,466	270,343	282,045
2,556	81,369	83,925	496,326	465,990
3,447	38,073	41,520	193,799	255,529
38,935	39,171	78,106	276,920	245,592
74,368	183,201	257,569	436,992	479,043
6,953	5,683	12,636	50,363	38,238
11,379	6,891	18,270	52,899	52,778
2,038	1,435	3,473	9,838	18,642
2,089	1,029	3,118	7,608	8,837
2,761	3,819	6,580	21,799	14,189
1,738	1,357	3,095	9,686	13,020
19,457	27	19,484	20,058	32,799
5,565	6,953	12,518	66,292	74,125
4,815	355	5,170	18,289	27,697
-	-	-	-	1,000
<u>\$ 529,862</u>	<u>\$ 809,818</u>	<u>\$ 1,339,680</u>	<u>\$ 4,479,558</u>	<u>\$ 4,945,621</u>

NATIONAL PSORIASIS FOUNDATION

Statement of Cash Flows

Year Ended June 30, 2005 <i>(With Comparative Totals for 2004)</i>	2005	2004
Cash flows from operating activities:		
Cash receipts:		
Contributions and educational grants	\$ 4,242,458	\$ 3,362,228
Legacies and bequests	69,639	346,061
Sales of patient education materials	83,497	18,117
Magazine advertising	164,003	293,981
Professional education course fees	61,752	35,682
Clinical study mailing reimbursements	49,247	15,307
Interest and dividends	18,337	16,790
Other	17,023	40,835
	<u>4,705,956</u>	<u>4,129,001</u>
Cash disbursements:		
Payroll and related expenses	2,010,214	2,113,394
Other operating expenses	2,531,088	2,615,210
	<u>4,541,302</u>	<u>4,728,604</u>
Net cash provided (used) by operating activities	164,654	(599,603)
Cash flows from investing activities:		
Proceeds from sales of investments	338,284	767,215
Purchases of investments	(533,534)	(1,417)
Purchases of furniture and equipment	(21,987)	(11,174)
	<u>(217,237)</u>	<u>754,624</u>
Net cash provided (used) by investing activities	(217,237)	754,624
Net increase (decrease) in cash and cash equivalents	(52,583)	155,021
Cash and cash equivalents, beginning of year	1,180,514	1,025,493
Cash and cash equivalents, end of year	<u>\$ 1,127,931</u>	<u>\$ 1,180,514</u>

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

NATIONAL PSORIASIS FOUNDATION

Statement of Cash Flows - Continued

Year Ended June 30, 2005 <i>(With Comparative Totals for 2004)</i>	2005	2004
Reconciliation of increase in net assets to net cash provided (used) by operating activities:		
Increase in net assets	\$ 198,692	\$ 176,641
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Gain on investments	(7,556)	(33,823)
Contributed investments	(17,031)	(208,070)
Depreciation	66,292	74,125
 (Increase) decrease in:		
Accounts receivable	30,814	47,545
Grants receivable	(21,956)	32,630
Pledges receivable - net	29,884	(745,271)
Legacies and bequests receivable	55,320	185,255
Inventory of literature	(27,021)	44,439
Prepaid expenses	(44,696)	88,015
Security deposits	(717)	(654)
 Increase (decrease) in:		
Accounts payable	104,464	(172,249)
Grants payable	(175,000)	175,000
Accrued payroll, payroll taxes, and withholdings	11,736	9,062
Accrued vacation pay	10,681	132
Deferred income - special projects	(49,252)	(272,380)
 Net cash provided (used) by operating activities	 <u>\$ 164,654</u>	 <u>\$ (599,603)</u>

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

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Organization - Psoriasis has a devastating impact on the lives of individuals and their families. It is potentially physically disabling and emotionally devastating. It marks people as different and dictates that they learn to live in a society that can often be discriminatory and insensitive. The mission of National Psoriasis Foundation (the Foundation) is to improve the quality of life of people who have psoriasis and psoriatic arthritis. Through education and advocacy, the Foundation promotes awareness and understanding, ensures access to treatment and supports research that will lead to effective management and, ultimately, a cure. The Foundation is dedicated to educating, serving and empowering people with psoriasis and psoriatic arthritis.

The financial statements of National Psoriasis Foundation have been prepared in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. The significant accounting policies followed are described below:

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents - The Foundation considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include bank deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurable limits of \$1,118,295 and \$811,675 at June 30, 2005 and 2004, respectively.

Investments - Investments are carried at market value. Net appreciation in fair value of investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation of those investments, is shown in the statement of activities.

Receivables - Receivables are recognized as goods and services are provided. The Foundation does not assess finance charges on past due amounts.

The Foundation considers all receivables at June 30, 2005 to be fully collectible.

Inventory - Inventory is valued at lower of cost (first-in, first-out) or market.

Furniture and Equipment - The Foundation follows the policy of capitalizing, at cost, all expenditures for furniture and equipment in excess of \$1,000.

Furniture and equipment received through donation are recorded at estimated fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 5 to 10 years.

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

1. Organization and Significant Accounting Policies - Continued

Net Assets - The accompanying financial statements have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of the Foundation's net assets in two classes, unrestricted and temporarily restricted, as follows:

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Revenue Recognition - The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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.

The Foundation reports gifts of furniture and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. 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 those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Temporarily restricted contributions are classified as unrestricted where the restriction is met in the same fiscal year the contribution is received.

Donated Services - Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services a) create or enhance nonfinancial assets, or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Volunteers also provided support-group and other community-based program services throughout the year that are not recognized as contributions in the financial statements since the criteria for SFAS No. 116 are not met.

Functional Allocation of Expenses - Costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

1. Organization and Significant Accounting Policies - Continued

Income Taxes - Income taxes are not provided for in the financial statements since the Foundation is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Foundation is not classified as a private foundation. Revenue from certain advertising services provided by the Foundation has been classified by the Internal Revenue Service as unrelated business income. The Foundation files the appropriate tax returns for these activities and pays tax on any excess income from these activities. The Foundation's unrelated business activities did not result in any income tax expense paid for the years ended June 30, 2005 and 2004.

Summarized Financial Information for 2004 - The financial statements include certain prior-year summarized comparative information by function and in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

Reclassifications - Certain information in the 2004 financial statements has been reclassified for comparative purposes to conform with the 2005 presentation.

2. Program and Supporting Services

Program Services

Public Education - Programs which educate the public about the causes, treatments, and diagnosis of psoriasis, including the Foundation's basic information and referral program, educational booklets, Internet website, national conference and community education meetings.

Patient Services - The Foundation's patient services include the Psoriasis Network groups (support groups), used UVB equipment list, physician referral program, and individual assistance.

Professional Education - Programs designed to improve the delivery of psoriasis care by health professionals. The Foundation's programs include *Psoriasis Forum* newsletter, exhibits at professional conventions, and PUVA and phototherapy courses.

Community Services - Community-based programs, including the Foundation's medical office and community literature program, insurance advocacy and government affairs.

Research - Programs include awards and grants made to institutions conducting psoriasis research in order to improve diagnosis and treatment, and eventually cure psoriasis, support of the Foundation's scientific meetings, and advocacy on research issues.

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

2. Program and Supporting Services - Continued

Supporting Services - Management and general activities provide the necessary developmental, organizational, and managerial support for the effective operation of programs.

The fund-raising function encompasses direct and indirect costs for solicitation of contributions.

3. Investments

Investments consist of the following:

	2005	2004
Corporate bonds	\$ 373,943	\$ 152,022
Common stock	<u>201,245</u>	<u>203,329</u>
	<u>\$ 575,188</u>	<u>\$ 355,351</u>

4. Pledges Receivable - Net

Pledges receivable are due as follows:

	2005	2004
Within one year	\$ 332,829	\$ 674,500
One to five years	<u>659,714</u>	<u>342,000</u>
Gross pledges receivable	992,543	1,016,500
Less discount to present value (3 percent used for years ended June 30, 2005 and 2004)	<u>(35,754)</u>	<u>(29,827)</u>
Pledges receivable - net	<u>\$ 956,789</u>	<u>\$ 986,673</u>

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

5. Legacies and Bequests Receivable

Legacies and bequests receivable are due as follows:

	2005	2004
Within one year	\$ 14,188	\$ 55,508
One to five years	<u>42,000</u>	<u>56,000</u>
	<u>\$ 56,188</u>	<u>\$ 111,508</u>

No discount has been applied to legacies and bequests receivable beyond one year since payments received will include interest earned on the funds and, therefore, present value of future receivables approximates current value.

6. Grants Payable

Grants payable are due as follows:

	2005	2004
Within one year	\$ 55,000	\$ 285,000
One to five years	<u>55,000</u>	<u>-</u>
	<u>\$ 110,000</u>	<u>\$ 285,000</u>

No discount has been applied to grants payable beyond one year since the amount has been determined to be immaterial.

7. Deferred Income - Special Projects

Income deferred is as follows:

	2005	2004
Advertising revenue	\$ 200	\$ 42,825
Annual conference	9,523	32,450
Phototherapy course	6,300	-
Psoriasis score card	5,251	5,251
Survey panels	<u>10,000</u>	<u>-</u>
	<u>\$ 31,274</u>	<u>\$ 80,526</u>

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

8. Commitments

Operating Leases - The Foundation has entered into noncancelable leases for office space and equipment which will expire between November 1, 2007 and August 31, 2010.

Future minimum lease payments are as follows:

Years Ending June 30	Amount
2006	\$ 286,528
2007	286,528
2008	286,528
2009	286,528
2010	286,528
Thereafter	<u>52,853</u>
	<u>\$ 1,485,493</u>

Rent expense for the years ended June 30, 2005 and 2004 was \$298,426 and \$287,201, respectively.

Line of Credit - The Foundation has a \$250,000 line of credit agreement with US Bank. Interest is payable at the bank's prime rate (6.25 percent at June 30, 2005). The line is not secured and is due on demand. No outstanding borrowings existed at June 30, 2005 and 2004.

9. Unrestricted Net Assets - Designated

It is the Foundation's policy to maintain a minimum financial reserve equal to three months of projected fixed operating expenses. The amount of unrestricted net assets designated by the Board of Trustees under this policy was set at \$727,000 and \$670,000 at June 30, 2005 and 2004, respectively.

The Board of Trustees has established a "quasi" endowment fund. Spending of the endowment principal and earnings will begin only after the endowment has reached a minimum of \$500,000 and is limited to five percent of the principal per year. The balance of the endowment fund was \$148,212 and \$144,407 at June 30, 2005 and 2004, respectively.

The Board of Trustees established the Jones Legacy Fund to which seventy percent of the unrestricted bequests would be designated and would be targeted for research and special projects subject to a majority vote by the Board. The balance of the Jones Legacy Fund was \$247,605 and \$261,582 at June 30, 2005 and 2004, respectively.

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2005	2004
Advocacy	\$ -	\$ 87,193
Alternative therapy	-	25
Amgen Education meetings	29,956	-
Chief residents meeting	58,310	-
Event scholarships	11,125	17,550
Fialkov diet	4,500	4,500
Finding a Cure Campaign	70,574	3,800
Finding a Cure Campaign - for use in future periods	913,789	464,173
Gene Find	39,551	53,102
Halprin Award	4,157	4,157
Individual assistance	3,799	3,799
International Genetics	-	64,844
Meeting in a Box	-	7,000
National conference	5,000	-
Pocket Guide	-	50,000
Psoriatic arthritis research	32,378	32,010
Support groups	20,952	-
Youth program	10,344	10,344
For use in future periods	<u>99,188</u>	<u>634,008</u>
	<u>\$ 1,303,623</u>	<u>\$ 1,436,505</u>

11. Net Assets Released from Restrictions

During the year ended June 30, 2005, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Advocacy	\$ 87,193
Alternative therapy	25
Event scholarship	8,602
Finding a Cure Campaign	359,768
International Genetics	64,844
Gene Find	60,000
Meeting in a Box	7,000
Pocket Guide	50,000
Support groups	9,583
For use in future periods	<u>534,820</u>
	<u>\$ 1,181,835</u>

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

12. Tax Deferred Annuity Plan

The Foundation has a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The Plan is available to all full-time employees of the Foundation, who may make contributions to the Plan up to the maximum amount allowed by the Internal Revenue Code. The Foundation did not make any contributions to the Plan for the years ended June 30, 2005 or 2004.

13. Joint Cost Activity

The Foundation prepares a publication which is considered a joint cost activity. Costs associated with the preparation of this publication are allocated to program and fund-raising activities as follows:

	2005	2004
Public education	\$ 185,608	\$ 257,451
Fund-raising	<u>9,769</u>	<u>13,550</u>
	<u>\$ 195,377</u>	<u>\$ 271,001</u>