



FINANCIAL STATEMENTS

Year Ended June 30, 2007

with

Independent Auditors' Report

NATIONAL PSORIASIS FOUNDATION

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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, 2007, 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, 2006. Those financial statements were audited by us, and our report dated August 25, 2006, 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, 2007, 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.

October 16, 2007

NATIONAL PSORIASIS FOUNDATION

Statement of Financial Position

June 30, 2007 <i>(With Comparative Amounts for 2006)</i>	2007	2006
ASSETS		
Cash and cash equivalents	\$ 3,549,409	\$ 1,774,433
Investments <i>(Note 3)</i>	907,951	731,818
Accounts receivable	48,300	16,760
Grants receivable	2,500	-
Pledges receivable - net <i>(Note 4)</i>	1,293,593	2,106,554
Legacies and bequests receivable <i>(Note 5)</i>	295,127	714,000
Inventory of literature	55,627	83,545
Prepaid expenses	141,853	91,155
Security deposits	23,570	23,570
Furniture and equipment - net of accumulated depreciation of \$530,543 and \$495,036 in 2007 and 2006, respectively	51,795	69,949
Total assets	<u>\$ 6,369,725</u>	<u>\$ 5,611,784</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 165,366	\$ 142,956
Grants payable - due within one year	30,000	30,000
Accrued payroll, payroll taxes and withholdings	78,550	72,988
Accrued vacation pay	78,602	96,103
Deferred income - special projects <i>(Note 6)</i>	68,475	60,554
Total liabilities	420,993	402,601
Commitments <i>(Note 7)</i>		
Net assets (deficit):		
Unrestricted:		
Undesignated	540,338	(772,266)
Designated <i>(Note 8)</i>	2,530,000	2,306,550
	3,070,338	1,534,284
Temporarily restricted <i>(Note 9)</i>	2,878,394	3,674,899
Total net assets	<u>5,948,732</u>	<u>5,209,183</u>
Total liabilities and net assets	<u>\$ 6,369,725</u>	<u>\$ 5,611,784</u>

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

NATIONAL PSORIASIS FOUNDATION

Statement of Activities

Year Ended June 30, 2007 (With Comparative Totals for 2006)

	Unrestricted	Temporarily Restricted	Total	
			2007	2006
Revenue, gains, and other support:				
Individual contributions	\$ 1,435,919	\$ 403,933	\$ 1,839,852	\$ 2,798,034
Corporate contributions and educational grants	1,418,688	55,562	1,474,250	1,738,147
Foundation contributions	13,619	17,500	31,119	142,100
Legacies and bequests	738,374	375,279	1,113,653	1,577,472
Sales of patient education materials	22,783	-	22,783	31,156
Fees from survey panels conducted	90,000	-	90,000	100,000
Magazine advertising	146,800	-	146,800	117,725
Professional education course fees	34,860	-	34,860	70,425
Interest and dividends	150,050	-	150,050	51,628
Gain on investments	43,038	-	43,038	21,195
Other (Note 9)	41,524	103,845	145,369	29,433
Net assets released from restrictions (Note 10)	1,752,624	(1,752,624)	-	-
Total revenue, gains, and other support	5,888,279	(796,505)	5,091,774	6,677,315
Expenses:				
Public education	1,070,832	-	1,070,832	1,239,386
Patient services	540,789	-	540,789	513,892
Professional education	308,017	-	308,017	456,286
Community services	542,118	-	542,118	383,584
Research	539,091	-	539,091	282,042
Management and general	424,220	-	424,220	423,128
Fund-raising	927,158	-	927,158	801,369
Total expenses	4,352,225	-	4,352,225	4,099,687
Increase (decrease) in net assets	1,536,054	(796,505)	739,549	2,577,628
Net assets, beginning of year	1,534,284	3,674,899	5,209,183	2,631,555
Net assets, end of year	\$ 3,070,338	\$ 2,878,394	\$ 5,948,732	\$ 5,209,183

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

NATIONAL PSORIASIS FOUNDATION

Statement of Functional Expenses

Year Ended June 30, 2007 (With Comparative Totals for 2006)

	Program Services					Total
	Public Education	Patient Services	Professional Education	Community Services	Research	
Salaries	\$ 486,935	\$ 331,898	\$ 74,563	\$ 179,589	\$ 157,993	\$ 1,230,978
Employee benefits	52,744	35,950	8,077	19,452	17,113	133,336
Payroll taxes	45,284	30,866	6,934	16,701	14,693	114,478
Occupancy	81,690	55,680	12,509	30,128	26,506	206,513
Telecommunications	19,627	5,847	1,413	3,126	2,700	32,713
Awards and grants	-	-	-	-	119,360	119,360
Conferences and meetings	62,426	14,182	54,775	23,278	12,385	167,046
Printing and publications	138,025	1,140	22,721	24,346	25,801	212,033
Postage and handling	50,320	3,991	5,832	7,333	6,833	74,309
Travel	43,541	24,116	85,641	31,619	15,408	200,325
Professional and contract services	30,343	5,369	27,454	182,039	120,390	365,595
Supplies	10,049	7,448	2,114	3,181	8,279	31,071
Equipment maintenance and repair	13,195	8,660	1,945	12,912	4,122	40,834
Dues and subscriptions	3,488	1,738	350	844	742	7,162
Staff education and training	1,480	853	192	475	406	3,406
Insurance	6,081	4,145	931	2,243	1,973	15,373
Reporting and filing fees	2,696	1,837	413	994	875	6,815
Bank charges	10,385	-	-	-	-	10,385
Depreciation	9,726	6,629	1,489	3,587	3,156	24,587
Other	2,797	440	664	271	356	4,528
	<u>\$ 1,070,832</u>	<u>\$ 540,789</u>	<u>\$ 308,017</u>	<u>\$ 542,118</u>	<u>\$ 539,091</u>	<u>\$ 3,000,847</u>

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

Supporting Services				
Management and General	Fund- raising	Total	Total	
			2007	2006
\$ 152,310	\$ 394,413	\$ 546,723	\$ 1,777,701	\$ 1,813,746
16,498	42,722	59,220	192,556	179,774
14,164	36,679	50,843	165,321	168,370
25,552	66,168	91,720	298,233	297,468
2,420	6,722	9,142	41,855	33,930
-	-	-	119,360	65,000
13,791	25,697	39,488	206,534	239,159
395	154,634	155,029	367,062	323,418
1,526	60,298	61,824	136,133	178,507
34,022	48,485	82,507	282,832	223,221
103,238	19,055	122,293	487,888	288,216
2,793	13,270	16,063	47,134	50,747
8,179	25,975	34,154	74,988	89,754
813	8,374	9,187	16,349	10,293
5,787	1,147	6,934	10,340	6,797
1,902	4,926	6,828	22,201	21,150
843	2,184	3,027	9,842	9,070
35,991	225	36,216	46,601	28,263
3,042	7,878	10,920	35,507	50,242
954	8,306	9,260	13,788	22,562
<u>\$ 424,220</u>	<u>\$ 927,158</u>	<u>\$ 1,351,378</u>	<u>\$ 4,352,225</u>	<u>\$ 4,099,687</u>

NATIONAL PSORIASIS FOUNDATION

Statement of Cash Flows

Year Ended June 30, 2007 <i>(With Comparative Totals for 2006)</i>	2007	2006
Cash flows from operating activities:		
Cash receipts:		
Contributions and educational grants	\$ 4,031,403	\$ 3,463,552
Legacies and bequests	1,532,526	919,660
Sales of patient education materials	22,783	31,156
Fees from survey panels conducted	40,000	130,000
Magazine advertising	168,600	160,562
Professional education course fees	34,860	75,705
Clinical study mailing reimbursements	-	10,554
Interest and dividends	150,050	51,628
Other	144,490	29,433
	<u>6,124,712</u>	<u>4,872,250</u>
Cash disbursements:		
Payroll and related expenses	2,142,057	2,137,830
Other operating expenses	2,181,510	2,024,878
	<u>4,323,567</u>	<u>4,162,708</u>
Net cash provided by operating activities	1,801,145	709,542
Cash flows from investing activities:		
Proceeds from sales of investments	414,279	245,234
Purchases of investments	(423,095)	(303,749)
Purchases of furniture and equipment	(17,353)	(4,525)
	<u>(26,169)</u>	<u>(63,040)</u>
Net cash used by investing activities	(26,169)	(63,040)
Net increase in cash and cash equivalents	1,774,976	646,502
Cash and cash equivalents, beginning of year	1,774,433	1,127,931
Cash and cash equivalents, end of year	<u>\$ 3,549,409</u>	<u>\$ 1,774,433</u>

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

NATIONAL PSORIASIS FOUNDATION

Statement of Cash Flows - Continued

Year Ended June 30, 2007 <i>(With Comparative Totals for 2006)</i>	2007	2006
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 739,549	\$ 2,577,628
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Gain on investments	(43,038)	(21,195)
Contributed investments	(124,279)	(76,920)
Depreciation	35,507	50,242
(Increase) decrease in:		
Accounts receivable	(31,540)	49,391
Grants receivable	(2,500)	21,956
Pledges receivable - net	812,961	(1,149,765)
Legacies and bequests receivable	418,873	(657,812)
Inventory of literature	27,918	(7,904)
Prepaid expenses	(50,698)	19,280
Increase (decrease) in:		
Accounts payable	22,410	(68,699)
Grants payable - due within one year	-	(80,000)
Accrued payroll, payroll taxes, and withholdings	5,562	8,464
Accrued vacation pay	(17,501)	15,596
Deferred income - special projects	7,921	29,280
Net cash provided by operating activities	<u>\$ 1,801,145</u>	<u>\$ 709,542</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 \$3,552,779 and \$1,744,378 at June 30, 2007 and 2006, 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.

Accounts Receivable - Accounts receivable 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, 2007 and 2006 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, 2007 and 2006.

Summarized Financial Information for 2006 - 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, 2006, from which the summarized information was derived.

Reclassifications - Certain information in the 2006 financial statements has been reclassified for comparative purposes to conform with the 2007 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:

	2007	2006
Corporate bonds	\$ 652,936	\$ 530,139
Common stock	<u>255,015</u>	<u>201,679</u>
	<u>\$ 907,951</u>	<u>\$ 731,818</u>

4. Pledges Receivable - Net

Pledges receivable are due as follows:

	2007	2006
Within one year	\$ 992,403	\$ 1,173,690
One to five years	<u>378,117</u>	<u>998,929</u>
Gross pledges receivable	1,370,520	2,172,619
Less discount to present value (3 percent used for years ended June 30, 2007 and 2006)	(26,927)	(66,065)
Less allowance for uncollectible pledges receivable	<u>(50,000)</u>	<u>-</u>
Pledges receivable - net	<u>\$ 1,293,593</u>	<u>\$ 2,106,554</u>

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

5. Legacies and Bequests Receivable

Legacies and bequests receivable are due as follows:

	2007	2006
Within one year	\$ 281,127	\$ 686,000
One to five years	<u>14,000</u>	<u>28,000</u>
	<u>\$ 295,127</u>	<u>\$ 714,000</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. Deferred Income - Special Projects

Deferred income is as follows:

	2007	2006
Advertising revenue	\$ 33,000	\$ 4,200
Annual conference	25,380	19,143
Phototherapy course	-	1,960
Psoriasis score card	-	5,251
Survey panels	10,000	30,000
Other	<u>95</u>	<u>-</u>
	<u>\$ 68,475</u>	<u>\$ 60,554</u>

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

7. Commitments

Operating Leases - The Foundation has entered into noncancelable leases for office space and equipment which will expire between August 31, 2010 and June 15, 2012.

Future minimum lease payments are as follows:

Years Ending June 30	Amount
2008	\$ 305,945
2009	305,945
2010	305,945
2011	59,638
2012	<u>10,377</u>
	<u>\$ 987,850</u>

Rent expense for the years ended June 30, 2007 and 2006 was \$298,233 and \$297,468, 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 (8.25 percent at June 30, 2007). The line is not secured and is due on demand. There were no outstanding borrowings at June 30, 2007 and 2006.

Severance Agreement - During the year ended June 30, 2007, the Foundation entered into a severance agreement with the President of the Foundation whereby the Foundation will make monthly payments to the President of \$11,690 beginning January 1, 2008, which is when the President will retire and end employment with the Foundation, and ending December 31, 2008. The agreement also calls for the Foundation to pay for the President's health insurance during this period.

8. 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 \$700,000 and \$760,000 at June 30, 2007 and 2006, 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 \$421,803 and \$410,576 at June 30, 2007 and 2006, respectively.

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

8. Unrestricted Net Assets - Designated - Continued

The Board of Trustees established the Jones Legacy Fund to which 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 \$1,408,197 and \$1,135,974 at June 30, 2007 and 2006, respectively.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2007	2006
Awareness walks	\$ 4,693	\$ 10,000
Chief residents meeting	-	60,000
Fialkov diet	4,500	4,500
Finding a Cure Campaign	1,084,253	682,726
Finding a Cure Campaign - for use in future periods	1,265,093	1,968,372
Discovery	151,116	46,255
Halprin Award	4,157	4,157
Individual assistance	3,087	3,087
Psoriatic arthritis research	2,628	2,528
Spanish translation	1,750	1,750
Support groups	16,783	23,973
Youth program	14,207	15,369
For use in future periods	<u>326,127</u>	<u>852,182</u>
	<u>\$ 2,878,394</u>	<u>\$ 3,674,899</u>

During the year ended June 30, 2007, the Foundation received \$103,845 from recipients of previously awarded grants. The funds were received by the Foundation because the recipients did not use all of the grant funds for the purpose outlined in the grant agreement. In previous years, donors had restricted contributions to be used for grants and when the grants were awarded, the Foundation released the restriction. Since the intended use of the restricted contributions was for grants, the unspent grant funds received by the Foundation during the year has been added back to temporarily restricted net asset.

NATIONAL PSORIASIS FOUNDATION

Notes to Financial Statements - Continued

10. Net Assets Released from Restrictions

During the year ended June 30, 2007, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Chief residents meetings	\$	60,000
Awareness walks		5,307
Finding a Cure Campaign		814,583
Youth program		1,212
Support groups		19,340
For use in future periods		<u>852,182</u>
		<u>\$ 1,752,624</u>

11. 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, 2007 or 2006.

12. 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 of June 30, as follows:

	2007	2006
Public education	\$ 139,545	\$ 155,534
Fund-raising	<u>7,344</u>	<u>8,186</u>
	<u>\$ 146,889</u>	<u>\$ 163,720</u>