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MANAGEMENT LETTER

March 8, 2011

Members of the Board of Directors
The National Fragile X Foundation
P.O. Box 37
Walnut Creek, California 94597

Dear Members of the Board of Directors:

We have recently concluded our examination of the financial statements of The National Fragile X Foundation for the year ended December 31, 2010 and we are presenting our comments and recommendations to management. This communication is intended to satisfy the requirements of Statement on Auditing Standards No. 115 (SAS 115), which requires an auditor to communicate internal control related matters identified in an audit to those charged with governance (formerly SAS 112).

This report is intended solely for the information and use of management, the Audit Committee and the Board of Directors. At your discretion, please feel free to distribute this document to others within the organization.

Our testwork of the National Fragile X's internal accounting control system disclosed no material weaknesses.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by personnel of the National Fragile X during the course of our examination.

Sincerely,

Regalia & Associates

Douglas W. Regalia, Partner
REGALIA & ASSOCIATES, CPA'S

Accounting Department

Each year we scrutinize the activity in the general ledger and, through our testing of transactions, provide management with feedback on the functioning of the Organization's Accounting Department. During the recently concluded fiscal year, we noted that all of the important asset and liability accounts (such as bank accounts, accounts receivable, and accounts payable) had been reconciled to supporting documentation and that subsidiary schedules were prepared when necessary.

We were able to locate all of the invoices and supporting documentation for the items selected for detail testing. Without exception, we traced disbursements and deposits from the general ledger to third-party evidence, including paid invoices, copies of checks, and, furthermore, traced this information to the organization's monthly bank statements. All of the disbursements (paid invoices) and cash receipts were easily located and we found no exceptions in the items we tested.

Our clients often ask us about our adjusting journal entries. A "normal" audit will usually consist of about 8 to 10 adjusting journal entries ("AJEs"). A list of AJEs with more than ten entries usually indicates a situation in which the books and general ledger were not properly maintained or reviewed by the internal accounting staff during the year. Conversely, a list of AJEs containing fewer than eight entries usually indicates an accounting system that has undergone close scrutiny by the accounting staff during the year. In our effort to be as transparent as possible about our examination process, we provide management with a summary of the Adjusting Journal Entries. Our audit this year contained the following postings:

Adjusting Journal Entries		Debit	Credit	Book or Pass
<1>	1300 · Educational sales inventory	745.83		Book
I-1	6500 · Education materials		745.83	Book
	To adjust inventory to agree with actual at 12-31-10			
<2>	6305 · Directors and officers	704.50		Book
X-5 p17	6303 · Liability		704.50	Book
	To reclassify D&O insurance payment between two of the insurance expense accounts			
<3>	6112 · Depr and Amortization	8,091.50		Book
G-1	1520 · Accu Depr - Furniture and equip		8,091.50	Book
	To record depreciation expense for the year ended 12-31-10			
<4>	1100 · Accounts Receivable	5,000.00		Book
R-33	3400 · Temporarily restricted		5,000.00	Book
	To record Berman Fund - FX of Missouri Dec 2010 donation			
<5>	7500 · Other Income	9,500.00		Book
R-6	8500 · Other Expense		9,500.00	Book
	To reverse Kaiser fiscal agent grant and expenses (leaving $500 fee as earned income)			
<6>	3400 · Temporarily restricted	136,726.84		Book
Z-1	4300 · Rev Released from Restrictions		148,419.85	Book
	40013 · Events	11,693.01		Book
	To adjust temporarily restricted net assets for FYE 12-31-10			
		172,461.68	172,461.68	
		Total Debits	Total Credits	

Because the number of adjusting journal entries amounted to six, the total fell below the average range. Accordingly, the Board can conclude that the books and general ledger have been maintained in a very accurate manner.

Temporarily Restricted Net Assets

Temporarily restricted net assets is one of the more critical audit areas, and received much of our focus and attention. Our testing of the temporarily restricted net assets included verification of large donor contributions, movement of funds to pay for program expenses, and classification of ending fund balances.

Last year we suggested some changes in the accounting process for Temporarily Restricted accounts. During the audit, we noted that the ending balance needed adjustment and our findings were the impetus for our AJE #6 as shown on the previous page. We received an extensive Excel spreadsheet reflecting transactions impacting the restricted asset accounts. We noted that National Fragile X is attempting to comply with the requirements of Financial Accounting Standards Board SFAS No. 116, *Accounting for Contributions Received and Contributions Made.*

While there were improvements, we noted that the activity within the restricted assets had not been fully reconciled with the net assets released from restriction and the restricted revenue. Reclassifications and transfers within the temp restricted accounts should not be included in the additions or releases. Additionally, the net assets released should tie to and agree with General Ledger account 4300 “Released from Restrictions.” General Ledger account 7200 “Restricted Contributions” should be zeroed out. We are encouraged that Donna Hendren, the new outside bookkeeper, has been working diligently on this reconciliation and should have it in place for the next audit period.

Financial Records

During the audit we noted that the condition of the books and records were in excellent shape. Our testing of the accounting cycle reflected good internal controls with appropriate checks and balances in place. We feel it is important to acknowledge that the Accounting Department appeared well organized and able to properly perform its many functions which included reconciling accounts, investigating differences, researching entries, working with other departments, and recording transactions in a correct manner.

Because ultimate responsibility for the condition of the accounting records rests with the Board of Directors, having qualified, competent and hard working individuals in the Accounting Department should be one of the most important concerns to the Board. Accurate and timely financial data is critical to the success of the organization because the Board makes important short and long range decisions based on the financial information provided by the Accounting Department.

Employee Personnel Files

Although we did not discover any other deficiencies or shortcomings with regards to documents in the Organization's personnel department, we felt it necessary to bring attention to an area which has recently caused concern among some employers. Because of the difficult economy, employee attrition, whether forced or not, requires an employer to maintain spotless personnel files. In order to protect itself from a potential lawsuit (such as one claiming age discrimination, unlawful termination, etc.), employers should double-check all existing records to make sure that all employee personnel files maintain certain relevant and important documents, including (at a minimum) the following:

- Employment background check
- Employment application
- Copies of Insurance forms
- W-4s
- Personnel evaluations/reviews
- Annual reviews/salary adjustments
- Immigration documentation, and
- Termination data (including documentation regarding an exit interview)

Maintaining updated personnel files is an important facet of a strong internal accounting control system. It is also important from a legal standpoint because National Fragile X has an obligation to comply with the myriad of federal and state employment tax laws.

Other Matters

In providing a comprehensive list of suggestions for improving and maintaining a strong internal control and operational system, we have the following additional discussion points regarding governance:

- Conduct an annual orientation for all new Board members where policies and procedures, financial statements, tax returns and other current issues are reviewed.
- Provide copies of By-Laws, policies, prior year's Board minutes, current financial statements, tax returns (990s), and audit reports to all incoming Board members (could be electronic copies).
- Perform an annual review for all Board Directors and all committee members of National Fragile X's "Conflict of Interest" policy coupled with the signing (by each individual) of a "Conflict of Interest Form" which identifies any potential conflicts. This must be an annual process and all signed forms should be maintained in the office for reference by management and the external auditors.
- Prepare and distribute an "Ethics Policy" to be distributed to all Board members and management.

Tax Return

As noted on the next page, the current Form 990 is based on three guiding principles: enhancing transparency, promoting tax compliance and minimizing the burden on the filing organization. We prepared the December 31, 2010 tax return simultaneously with the preparation of the financial statements and have ensured that National Fragile X is complying fully with the multitude of disclosures required by the Internal Revenue Service.

Form 990

The form's summary page provides a snapshot of key financial and operating information, and displays a two-year comparison of summary financial information of the organization. The reordered core form provides a description of the organization's program service accomplishments immediately after the summary page, to provide context before the user proceeds to sections on tax compliance, governance, compensation and financial statements. The Checklist of Required Schedules also provides a quick view of whether the filing organization is conducting activities that raise tax compliance concerns, such as lobbying or political campaign activities, transactions with interested persons and major dispositions of assets.

The old Form 990 was a 9-page form with two schedules. The 2010 Form 990 is an 11-page form with 16 schedules. Organizations are requested to answer a variety of questions about how their management and governance operate, what policies and procedures they have in place and how their programs work. The idea underlying these questions is to ensure that organizations are conducting their businesses in an appropriate manner, underscoring the IRS's belief that the existence of an independent governing body and well-defined governance and management policies and practices increases the likelihood that an organization is operating in compliance with federal tax law.

Questions contained in Form 990 deal with the organization's Board composition and independence; its governance, management structure, and policies; and whether (and if so, how) the organization promotes transparency and accountability to its constituents or beneficiaries. The questions include:

- Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? Answer: No
- Were minutes taken at meetings of the Board of directors and committees of the Board? Answer: Yes
- Does the organization have a written conflict of interest policy and does the organization regularly and consistently monitor and enforce compliance with the conflict of interest policy? Answer: Yes
- Does the organization have a written document retention and destruction policy? Answer: Yes

These and the other probing questions were designed in part to achieve the IRS's goals of "transparency" and "compliance." Answering in the negative to some of the questions does not amount to an admission of unlawful activity. For example, you are not legally required to have a written conflict of interest policy. Be aware, however, that some who read the report—given that the Form 990 is a public document—might draw unfavorable conclusions depending on how the form is completed.

There is also increased reporting of executive compensation. Again, in its efforts to ensure transparency and compliance, the IRS requires enhanced reporting of compensation you pay officers, directors and employees. This will be of special interest to larger components. When calculating compensation, you must also include an estimate of nontaxable benefits, e.g., retirement plan contributions, health-club dues reimbursement and first-class travel. You will be required to report how you determined compensation amounts and whether the process for determining the compensation included review and approval by independent persons, use of comparability data, and "contemporaneous substantiation of the deliberation and decision." In particular, management will want to pay attention to the reporting requirements of this last point, because how executive compensation is determined may be a point of curiosity for audiences beyond the IRS.

Fraud and Audit Risk

As we have reported in prior year management letters, independent auditors are required to incorporate a broad-level of risk-based techniques when designing audit programs and related procedures.

There is no guarantee that an audit will uncover any fraud or wrong-doing. In fact, the likelihood of finding any financial irregularity is next to zero. That's because fraud (when it exists) is perpetrated by creative, smart, organized and clever individuals using highly sophisticated methods. We make every effort to understand our clients' systems of internal accounting control.

In the past, we have offered ideas to help identify and eliminate the potential for fraudulent activities, providing a long list of ideas and techniques (not all inclusive) which could be incorporated into the internal control system.

During the past two years, National Fragile X's management and Board of Directors have implemented a variety of programs, reviews and controls (some of them from our list) which we believe have enhanced the organization's ability to protect itself from both internal and external sources of potential misappropriation. The continued functioning of the organization's internal control environment depends on the performance of those individuals (in management and on the Board) who are responsible for reviewing and approving the financial activities of National Fragile X.

It is our experience that those organizations with the strongest controls (and the highest level of fraud protection) have Board members who are actively engaged in the review and approval process.

The strongest activities involving Board members (or those with financial background and experience, such as members of the Audit or Finance Committee) can include:

- Review of all bank, savings, money market, credit card and investment statements on a periodic basis (monthly or quarterly).

- Periodic review of a list of authorized vendors and reports which reflect payments to all vendors during the past quarter, past year, past two years, etc.

- Review of cash flow reports showing all sources of deposits and listing of disbursements for the past month, past quarter, past year, etc.

Conclusion: Having an active Board is a strong element of control in the overall strategy of preventing and detecting fraudulent and unauthorized financial activities.

Risk Assessment Standards

In a joint project between the Auditing Standards Board (ASB) and the International Auditing and Assurance Standards Board (IAASB), the AICPA's ASB recently issued eight Statements on Auditing Standards (SAS) [1] relating to the assessment of risk in an audit of financial statements.

Our audit approach, in full compliance with such standards, incorporates rules and regulations promulgated by all Statements of Auditing Standards for the year ended July 31, 2010. Our approach addresses and incorporates the following elements (as outlined in various SAS's, including statements 99 through 111):

- Performing risk assessment procedures
- Making Inquiries about fraud risks for management
- Making Inquiries about fraud risks for audit committee and/or board of director members
- Observation and inspection
- Incorporating enhancements to workpaper documentation
- Discussions among members of the engagement team
- Understanding the nonprofit organization and its environment, including internal controls
- Evaluating industry conditions, regulatory environment and other external factors
- Evaluating accounting policies and considering the organization's financial performance
- Understanding the internal control environment, including management's philosophy and operating style
- Determining materiality at the financial statement level and for particular items (such as lesser amounts)
- Assessing risks of material misstatement
- Establishing an overall audit strategy
- Identifying and assessing risks of material misstatement at the relevant assertion level
- Consideration of mitigating controls
- Consideration of magnitude
- Linking risk assessment to audit testing in the development of the detailed audit plan
- Testing the internal controls, where necessary
- Evaluating the extent of evidence to support a control risk assessment
- Adjustment of auditing procedures based on our understanding and testing of internal controls

The comments contained in this management letter resulted from our consideration of these risk assessment standards.

[1] The eight Statements on Auditing Standards are:
SAS No. 104, Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures ("Due Professional Care in the Performance of Work")
SAS No. 105, Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards
SAS No. 106, Audit Evidence
SAS No. 107, Audit Risk and Materiality in Conducting an Audit
SAS No. 108, Planning and Supervision
SAS No. 109, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
SAS No. 110, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained
SAS No. 111, Amendment to Statement on Auditing Standards No. 39, Audit Sampling

Communication in Accordance with Risk Assessment Standards

We have audited the financial statements of the National Fragile X for the year ended December 31, 2010, and have issued our report thereon dated March 8, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States

As stated in our engagement letter dated November 15, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accepted accounting principles generally accepted in the United States. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the National Fragile X. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you and discussed in detail in our Engagement Letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the National Fragile X are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2010. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. As previously stated, we are pleased to report that we did not find any adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 8, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management, the Audit Committee and the Board of and is not intended to be and should not be used by anyone other than these specified parties.

No Material Weaknesses

In planning and performing our audit of the financial statements of National Fragile X for the year ended December 31, 2010, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of National Fragile X is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

Based on the testwork we performed and the documents we examined, we are not aware of any material weaknesses in National Fragile X's operations.