

NATIONAL ALOPECIA AREATA FOUNDATION

SAN RAFAEL, CALIFORNIA

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
National Alopecia Areata Foundation
San Rafael, California

Report on the Financial Statements

We have audited the accompanying financial statements of National Alopecia Areata Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Alopecia Areata Foundation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited National Alopecia Areata Foundation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

R. J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 29, 2016

National Alopecia Areata Foundation
STATEMENTS OF FINANCIAL POSITION
December 31, 2015
(With Comparative Totals for December 31, 2014)

	2015	2014
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 442,598	\$ 890,098
Investments	2,924,513	3,389,891
Accounts receivable	100,007	81,101
Prepaid expenses and other current assets	15,042	21,580
Total current assets	3,482,160	4,382,670
Fixed assets, net of accumulated depreciation	11,572	16,034
Total assets	\$ 3,493,732	\$ 4,398,704
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 52,812	\$ 236,036
Accrued vacation payable	28,247	22,975
Deferred revenue	12,160	7,950
Total current liabilities	93,219	266,961
Net assets - Exhibit A:		
Unrestricted	1,449,806	1,508,335
Temporarily restricted	1,950,707	2,623,408
Total net assets	3,400,513	4,131,743
Total liabilities and net assets	\$ 3,493,732	\$ 4,398,704

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

National Alopecia Areata Foundation

Exhibit ASTATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2015

(With Comparative Totals for the Year Ended December 31, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2015</u>	<u>Total 2014</u>
Operating revenues:				
Contributions	\$ 761,565	\$ 20,217	\$ 781,782	\$ 1,040,630
Grants and sponsorships	30,546	261,298	291,844	336,343
Awareness and fundraising events, net	235,093	-	235,093	348,178
Newsletter, brochures, marketplace	22,863	-	22,863	16,618
Conference	118,654	-	118,654	109,390
Interest and dividends	157,030	-	157,030	119,296
Net realized and unrealized gains on investments	(238,024)	-	(238,024)	115,818
Other income	56,068	-	56,068	674
Net assets released from restrictions	954,216	(954,216)	-	-
Total operating revenues	<u>2,098,011</u>	<u>(672,701)</u>	<u>1,425,310</u>	<u>2,086,947</u>
Operating expenses:				
Program services:				
Support and education	712,589	-	712,589	782,769
Awareness and advocacy	307,087	-	307,087	229,288
Treatment development	853,999	-	853,999	855,422
Supportive services:				
Fundraising	153,466	-	153,466	145,761
Administration	129,399	-	129,399	153,897
Total operating expenses	<u>2,156,540</u>	<u>-</u>	<u>2,156,540</u>	<u>2,167,137</u>
Change in net assets from operations	<u>(58,529)</u>	<u>(672,701)</u>	<u>(731,230)</u>	<u>(80,190)</u>
Nonoperating revenues (expenses):				
Key person life insurance	-	-	-	(83,095)
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(83,095)</u>
Change in net assets	(58,529)	(672,701)	(731,230)	(163,285)
Net assets, beginning of period	<u>1,508,335</u>	<u>2,623,408</u>	<u>4,131,743</u>	<u>4,295,028</u>
Net assets, end of period	<u>\$ 1,449,806</u>	<u>\$ 1,950,707</u>	<u>\$ 3,400,513</u>	<u>\$ 4,131,743</u>

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

National Alopecia Areata Foundation
STATEMENTS OF FUNCTIONAL EXPENSES

Exhibit B

For the Year Ended December 31, 2015

(With Comparative Totals for the Year Ended December 31, 2014)

	Program Services			Supportive Services		Total 2015	Total 2014
	Support and Education	Awareness and Advocacy	Treatment Development	Fundraising	Admin- istration		
Expenses:							
Grants	\$ -	\$ -	\$ 400,131	\$ -	\$ -	\$ 400,131	\$ 307,538
Research program	600	-	109,520	-	-	110,120	123,766
Scholarships	13,581	-	-	-	-	13,581	12,115
Salaries	239,573	145,647	162,266	50,067	43,786	641,339	624,916
Payroll taxes	19,558	11,897	13,289	4,097	3,589	52,430	52,393
Medical benefits	29,806	17,533	16,795	5,445	4,245	73,824	62,961
Retirement benefits	32,269	19,630	21,925	6,760	5,922	86,506	72,795
Workers compensation insurance	2,714	1,597	1,529	496	387	6,723	5,295
Legal fees	127	7,933	2,174	23	1,019	11,276	1,063
Accounting and tax preparation	-	-	-	7,050	27,822	34,872	47,123
Audit fees	-	-	-	-	5,500	5,500	5,300
Website and software maintenance	13,698	7,740	8,194	11,742	1,874	43,248	79,777
Other professional fees	-	-	-	-	-	-	30,861
Payroll processing fees	2,514	1,479	1,417	459	358	6,227	5,450
Rent	26,850	15,794	15,129	4,905	3,824	66,502	47,780
Insurance	3,211	1,889	1,809	586	457	7,952	6,427
Supplies	8,447	2,199	658	727	167	12,198	24,857
Expendable equipment	874	514	493	160	124	2,165	24,567
Telephone and internet	6,676	3,056	1,770	462	697	12,661	12,570
Postage and shipping	22,497	9,810	5,251	14,880	279	52,717	91,085
Printing and publications	16,201	24,270	50,836	30,394	307	122,008	103,632
Equipment repair, maintenance & leasing	16,445	4,507	4,146	1,438	1,047	27,583	33,153
Travel	27,882	16,876	10,138	666	425	55,987	107,411
Conventions and meetings	145,063	10,942	22,421	1,797	1,401	181,624	144,403
Audio and visual	25,279	800	500	-	-	26,579	52,279
Other taxes, licenses and fees	421	248	237	3,959	522	5,387	9,843
Dues and subscriptions	2,859	2,117	2,788	492	701	8,957	9,560
Bank charges and investment fees	593	348	333	6,780	19,472	27,526	18,700
Constituent assistance	54,406	-	-	-	-	54,406	45,051
Depreciation	445	261	250	81	3,425	4,462	3,716
Other expenses	-	-	-	-	2,049	2,049	750
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 712,589</u>	<u>\$ 307,087</u>	<u>\$ 853,999</u>	<u>\$ 153,466</u>	<u>\$ 129,399</u>	<u>\$ 2,156,540</u>	<u>\$ 2,167,137</u>

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

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2015

(With Comparative Totals for the Year Ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (731,230)	\$ (163,285)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,462	3,716
Net realized and unrealized gains on investments	238,024	(115,818)
Donation of investments	(12,626)	(1,532)
Changes in certain assets and liabilities:		
Accounts receivable	(18,906)	(54,120)
Prepaid expenses and other current assets	6,538	97,441
Accounts payable	(183,224)	233,502
Accrued vacation payable	5,272	1,018
Deferred revenue	4,210	7,950
Net cash provided (used) by operating activities	<u>(687,480)</u>	<u>8,872</u>
Cash flows from investing activities:		
Purchase of investments	(5,453,888)	(101,969)
Sale of investments	5,693,868	63,541
Acquisition of fixed assets	<u>-</u>	<u>(11,626)</u>
Net cash provided (used) by investing activities	<u>239,980</u>	<u>(50,054)</u>
Net increase (decrease) in cash during the period	(447,500)	(41,182)
Cash balance, beginning of period	<u>890,098</u>	<u>931,280</u>
Cash balance, end of period	<u>\$ 442,598</u>	<u>\$ 890,098</u>

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

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - GENERAL

The National Alopecia Areata Foundation (the Organization) was incorporated in 1981 as a non-profit public benefit corporation under the laws of the State of California as the world center for Alopecia Areata. The Organization is raising public consciousness of the disease, providing support and resources for those with the condition, and encouraging and funding medical research for better treatment and an ultimate cure.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements and records of the Organization are prepared on the accrual basis of accounting and, therefore, include all support and revenues when earned and all expenses when incurred, regardless of whether the support and revenues or expenses were received or paid as of the end of the period. Grants are recognized as support when earned in accordance with the terms of each grant or agreement.

B. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958-205), *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

C. Unrestricted Net Assets

Unrestricted net assets generally result from revenues obtained by providing services, receiving unrestricted contributions, and receiving interest and dividends from income-producing assets. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization and the purposes specified in its Articles of Incorporation or Bylaws and limits resulting from contractual agreements entered into by the Organization in the course of its operations.

D. Temporarily Restricted Net Assets

The Organization reports donations and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires 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.

E. Allocation of Expenses

Directly identifiable expenses are charged directly to program services and supportive services. Expenses related to more than one function are charged to program services and supportive services on the basis of periodic time and expense studies. Management and general expenses include those expenses that provide for the overall support and direction of the Organization.

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments such as certificates of deposit with a maturity of three months or less.

G. Investments

Investments are recorded at fair market value.

H. Accounts Receivable

The Organization has not accrued a loss for allowances for uncollectible receivables since it is the opinion of management that it is highly probable that all receivables will be collected.

I. Fixed Assets

Acquisitions of property and equipment in excess of \$3,500 are capitalized. Property and equipment are stated at cost and are depreciated over their estimated useful lives using the straight-line method. Expenditures for maintenance and repairs are charged to expense as incurred.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in services as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

J. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

K. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Organization carries commercial insurance.

L. Concentrations of Risk

The Organization maintains a portfolio of financial instruments which potentially expose the Organization to concentrations of investment risk. To limit the amount of risk exposure the Organization diversifies its portfolio by asset class and by depository. Subject to market fluctuations, management does not consider this risk a particular concern at this time.

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

M. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 29, 2016, the date the financial statements were available to be issued.

NOTE 3 - INCOME TAXES

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from California franchise taxes under Section 23701(d) of the Revenue and Taxation Code and, therefore, has made no provision for Federal or California income taxes. Contributors, donors and grantors may obtain tax benefits. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

The Organization adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2015. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

NOTE 4 - CASH AND CASH EQUIVALENTS

The cash balances as of December 31 were as follows:

	2015	2014
Westamerica Bank	\$ 232,796	\$ 218,284
Morgan Stanley	202,380	670,494
Charles Schwab	<u>7,422</u>	<u>1,320</u>
Total	<u>\$ 442,598</u>	<u>\$ 890,098</u>

Cash on deposit with Westamerica Bank in the amount of \$232,796 was fully insured by the Federal Deposit Insurance Corporation (FDIC). Cash on deposit with Morgan Stanley in the amount of \$202,380 was fully insured by the FDIC and other insurance provided by Morgan Stanley. Cash on deposit with Charles Schwab in the amount of \$7,422 was fully insured by the FDIC.

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2015

NOTE 5 - INVESTMENTS

As indicated in note 2L, the Organization maintains a diversified portfolio of financial instruments. In addition, the Organization frequently receives donations in the form of marketable securities. Donated marketable securities are sold within a short period after receipt. Investments are recorded at current market value on the statement of financial position.

	Charles Schwab	Morgan Stanley	Total
Account balances as of 12/31/14	\$ 18,020	\$ 3,371,871	\$ 3,389,891
Transfers	(18,020)	18,020	-
Purchase of investments/reinvested dividends	-	5,466,514	5,466,514
Sale of investments	-	(5,693,868)	(5,693,868)
Realized & unrealized gains and losses	-	(238,024)	(238,024)
Account balances as of 12/31/15	<u>\$ -</u>	<u>\$ 2,924,513</u>	<u>\$ 2,924,513</u>

The investments on deposit with Morgan Stanley are mutual funds and exchange-traded & closed-end funds (ETFs & CEFs).

NOTE 6 - SUMMARY OF FAIR VALUE EXPOSURE

FASB ASC 820-10 and subsections, *Fair Value Measurements and Disclosures* clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. The Organization has adopted FASB ASC 820-10 for its financial assets and liabilities measured on a recurring and nonrecurring basis.

FASB ASC 820-10 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)

Level 3: Significant unobservable inputs (including the Organization's own assumptions in determining the fair value of investments).

The inputs and methodology used for valuing the Organization's financial assets and liabilities are not indicators of the risks associated with those investments.

As of December 31, 2015, the investments balance of \$2,924,513 was all classified to be Level 1.

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2015

NOTE 6 - SUMMARY OF FAIR VALUE EXPOSURE (concluded)

FSP FAS 157-4 provides further clarification on SFAS 157 in determining an inactive market and a non-distressed transaction. The above investments for December 31, 2015 are further classified in accordance with FSP FAS 157-4 as follows:

	Total Investment	Level 1	Level 2	Level 3
ETFs & CEFs	\$ 460,407	\$ 460,407	\$ -	\$ -
Mutual Funds	<u>2,464,106</u>	<u>2,464,106</u>	-	-
Total	<u>\$ 2,924,513</u>	<u>\$ 2,924,513</u>	<u>-</u>	<u>-</u>

NOTE 7 - FIXED ASSETS

Fixed assets as of December 31, 2015 were as follows:

	Years	Balance 12/31/14	Additions	Deletions	Balance 12/31/15
Furniture/equipment	5	\$ 28,124	<u>\$ -</u>	<u>\$ -</u>	\$ 28,124
Less accumulated depreciation		<u>(12,090)</u>			<u>(16,552)</u>
Fixed assets, net		<u>\$ 16,034</u>			<u>\$ 11,572</u>

Depreciation expense was \$4,462 and \$3,716 for the years ended December 31, 2015 and December 31, 2014, respectively.

NOTE 8 - ACCRUED VACATION PAYABLE

The Organization's employees earn between ten to eighteen days vacation leave per year up to a maximum of 144 hours. At the end of the year, employees are paid for all vacation leave over 144 hours. Sick leave is earned at a rate of one day per month up to a maximum of 160 hours. Upon termination, the Organization is obligated to compensate employees for all earned and unused vacation time only. Accumulated unpaid employee vacation benefits are recognized as liabilities of the Organization. The amount of accumulated vacation was \$28,247 and \$22,975 as of December 31, 2015, and December 31, 2014, respectively.

NOTE 9 - AWARENESS AND FUNDRAISING EVENTS, NET

Awareness and fundraising events, net during the years ended December 31 were as follows:

	2015	2014
Awareness and fundraising events income	\$ 259,891	\$ 397,664
Related expenses	<u>(24,798)</u>	<u>(49,486)</u>
Awareness and fundraising events, net	<u>\$ 235,093</u>	<u>\$ 348,178</u>

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2015

NOTE 10 - DEFINED CONTRIBUTION RETIREMENT PLAN

In September 2012, the Board of Directors amended the defined contribution retirement plan established in 2001 for its employees. The plan was changed from an IRC 403(b) plan to an IRC 401(k) plan. Employees need to work one full year before they qualify for the plan. The Organization contributes 15% of the employee's salary to the plan which is fully vested immediately. Total employer's contribution to this plan during the years ended December 31, 2015 and December 31, 2014 was \$86,506 and \$72,795, respectively.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31 were available for the following purposes:

	<u>2015</u>	<u>2014</u>
Research Summit	\$ -	\$ 20,000
Treatment Development Fund	<u>1,950,707</u>	<u>2,603,408</u>
Total	<u>\$ 1,950,707</u>	<u>\$ 2,623,408</u>

NOTE 12 - RESEARCH GRANTS COMMITMENTS

The Organization has entered into various contracts with individuals and organizations to perform research projects. Research grants commitments as of December 31 were as follows:

	<u>2015</u>	<u>2014</u>
Columbia University	\$ 67,500	\$ 130,000
Leavett Medical Associates of Florida	5,000	-
The Children's Hospital of Philadelphia	23,541	-
University of Minnesota	74,252	-
University of Munster	75,000	25,000
University of Texas M.D. Anderson Cancer Center	<u>-</u>	<u>37,500</u>
Total	<u>\$ 245,293</u>	<u>\$ 192,500</u>

NOTE 13 - LEASE COMMITMENT

The Organization has entered into an operating lease to rent the facility at 65 Mitchell Blvd, San Rafael, CA 94903 pursuant to a lease agreement entered in September 2014. The lease expires in November 2019. The rent expense is currently \$5,065 per month and the security deposit not applicable towards last month's rent is \$5,465. Future lease payments under this agreement are as follows:

Year ending December 31, 2016	\$ 60,918
Year ending December 31, 2017	62,518
Year ending December 31, 2018	64,117
Year ending December 31, 2019	<u>60,118</u>
Total	<u>\$ 247,671</u>

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

NOTE 14 - COMMITMENTS

In May 2014, the Organization entered into a group sales agreement with Hyatt Regency, Washington, DC to hold the 2016 Annual Conference in July 2016. The agreement has a cancellation option whereby the canceling party must provide payment to the non-canceling party in the amount of \$132,048 plus applicable taxes if the cancellation option is exercised within 179 days or less from the start of the official event dates.

NOTE 15 - RECLASSIFICATIONS

Certain amounts in the December 31, 2014 financial statements, specifically the expense categories in the statement of functional expenses, have been reclassified to conform to the December 31, 2015 presentation. These reclassifications have no effect on the change in net assets as previously reported.