

NATIONAL ALOPECIA AREATA FOUNDATION

SAN RAFAEL, CALIFORNIA

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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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, which comprise the statement of financial position as of December 31, 2013, 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, 2013, 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 2012 financial statements, and our report dated April 30, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, 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
March 11, 2014

National Alopecia Areata Foundation
STATEMENTS OF FINANCIAL POSITION
December 31, 2013
(With Comparative Totals for December 31, 2012)

	2013	2012
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 931,280	\$ 1,134,592
Marketable securities	3,234,113	2,430,208
Accounts receivable	26,981	1,896
Prepaid expenses and other current assets	119,021	103,517
Total current assets	4,311,395	3,670,213
Fixed assets, net of accumulated depreciation	8,124	8,154
Total assets	\$ 4,319,519	\$ 3,678,367
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 2,534	\$ 9,055
Accrued vacation payable	21,957	16,573
Total current liabilities	24,491	25,628
Net assets - Exhibit A:		
Unrestricted	1,082,699	944,036
Temporarily restricted	3,212,329	2,708,703
Total net assets	4,295,028	3,652,739
Total liabilities and net assets	\$ 4,319,519	\$ 3,678,367

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

National Alopecia Areata Foundation

Exhibit A

STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2013

(With Comparative Totals for the Year Ended December 31, 2012)

	Unrestricted	Temporarily Restricted	Total 2013	Total 2012
Operating revenues:				
Donations - general	\$ 496,398	\$ -	\$ 496,398	\$ 505,744
Donations - stock and major donors	225,637	-	225,637	289,106
Restricted grants and donations	-	219,283	219,283	177,215
Conference	200,661	12,650	213,311	258,935
Awareness campaign and special events	208,397	1,757	210,154	129,229
Newsletter and brochures	19,326	9,750	29,076	26,699
Alopecia Areata market place	9,902	-	9,902	8,230
Thirtieth anniversary	-	-	-	169,700
Prior year grant reimbursements	-	-	-	8,039
Interest and dividend income	86,749	-	86,749	61,570
Net realized and unrealized gains on marketable securities	282,010	-	282,010	56,823
Net assets released from restrictions	669,814	(669,814)	-	-
Total operating revenues	<u>2,198,894</u>	<u>(426,374)</u>	<u>1,772,520</u>	<u>1,691,290</u>
Operating expenses:				
Program services:				
Research	789,347	-	789,347	644,005
Education and support	1,001,862	-	1,001,862	946,621
Supportive services:				
Fundraising	154,369	-	154,369	184,332
Management and general	114,653	-	114,653	112,517
Total operating expenses	<u>2,060,231</u>	<u>-</u>	<u>2,060,231</u>	<u>1,887,475</u>
Change in net assets from operations	<u>138,663</u>	<u>(426,374)</u>	<u>(287,711)</u>	<u>(196,185)</u>
Nonoperating revenues:				
Treatment Development Fund	-	930,000	930,000	2,750,000
Total nonoperating revenues	<u>-</u>	<u>930,000</u>	<u>930,000</u>	<u>2,750,000</u>
Change in net assets	138,663	503,626	642,289	2,553,815
Net assets, beginning of period	<u>944,036</u>	<u>2,708,703</u>	<u>3,652,739</u>	<u>1,098,924</u>
Net assets, end of period	<u>\$ 1,082,699</u>	<u>\$ 3,212,329</u>	<u>\$ 4,295,028</u>	<u>\$ 3,652,739</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, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

	Program Services		Supportive Services		Total 2013	Total 2012
	Research	Education and Support	Fundraising	Management and General		
Expenses:						
Compensation	\$ 238,965	\$ 360,008	\$ 49,480	\$ 58,838	\$ 707,291	\$ 613,731
Employee benefits	17,131	35,480	3,914	4,232	60,757	37,400
Payroll taxes	12,936	28,456	2,897	3,171	47,460	40,775
Retirement plan	20,539	36,833	5,453	5,508	68,333	58,923
Insurance, workers compensation	1,161	2,405	265	287	4,118	6,532
Occupancy	15,850	31,701	6,340	9,510	63,401	61,674
Supplies	1,176	8,817	588	1,175	11,756	10,268
Telephone	2,346	4,301	391	782	7,820	7,392
Website	6,409	24,033	1,602	-	32,044	31,566
Equipment and depreciation	3,536	12,375	-	1,768	17,679	8,021
Insurance, liability and key person	2,220	3,108	888	2,664	8,880	9,269
Accounting	1,763	5,289	-	10,579	17,631	15,303
Auditing and legal	905	2,263	-	5,882	9,050	21,225
State registrations	-	-	10,127	4,340	14,467	9,969
Licenses, taxes and fees	-	389	2,916	583	3,888	3,832
Bank charges and miscellaneous	-	11,315	2,829	-	14,144	14,586
Dues and subscriptions	1,011	6,068	1,011	2,023	10,113	16,267
Postage and shipping	-	63,900	29,188	-	93,088	77,090
Printing and publications	-	92,090	23,807	-	115,897	103,877
Conference	-	159,260	-	-	159,260	210,408
Research expenses - general	-	-	-	-	-	5,124
Research grants and registry	463,399	-	-	-	463,399	353,239
Awareness campaign and special events	-	34,825	12,673	-	47,498	53,708
Conventions and meetings	-	29,795	-	3,311	33,106	18,187
Marketplace	-	13,786	-	-	13,786	15,251
Support group project and Ascot fund	-	35,365	-	-	35,365	35,530
Thirtieth Anniversary	-	-	-	-	-	48,328
Total expenses	<u>\$ 789,347</u>	<u>\$ 1,001,862</u>	<u>\$ 154,369</u>	<u>\$ 114,653</u>	<u>\$ 2,060,231</u>	<u>\$ 1,887,475</u>

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

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2013

(With Comparative Totals for the Year Ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 642,289	\$ 2,553,815
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,002	3,190
Net realized and unrealized gains on marketable securities	(282,010)	(56,823)
Changes in certain assets and liabilities:		
Accounts receivable	(25,085)	(666)
Prepaid expenses and other current assets	(15,504)	(5,436)
Accounts payable	(6,521)	(4,953)
Accrued vacation payable	5,384	2,384
Net cash provided (used) by operating activities	<u>321,555</u>	<u>2,491,511</u>
Cash flows from investing activities:		
Purchase of marketable securities	(755,195)	(1,862,982)
Sale of marketable securities	233,300	11,767
Acquisition of fixed assets	(2,972)	(5,065)
Net cash provided (used) by investing activities	<u>(524,867)</u>	<u>(1,856,280)</u>
Net increase (decrease) in cash during the period	(203,312)	635,231
Cash balance, beginning of period	<u>1,134,592</u>	<u>499,361</u>
Cash balance, end of period	<u>\$ 931,280</u>	<u>\$ 1,134,592</u>
Supplemental disclosures of cash flow information:		
Noncash activities:		
Disposition of fixed assets	<u>\$ 156,818</u>	<u>\$ -</u>

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

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

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, 2013

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 twelve months or less.

G. Marketable securities

Marketable securities 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

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, 2013

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 March 11, 2014, 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, 2013. 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:

	2013	2012
Westamerica Bank	\$ 104,884	\$ 281,479
Smith Barney	11,035	11,130
Merrill Lynch	4,963	49,097
Charles Schwab	810,398	792,886
Total	<u>\$ 931,280</u>	<u>\$ 1,134,592</u>

Cash on deposit with Westamerica Bank in the amount of \$104,884 was fully insured by the Federal Deposit Insurance Corporation (FDIC). Cash on deposit with Smith Barney in the amount of \$11,035 was fully insured by the FDIC. Cash on deposit with Merrill Lynch in the amount of \$4,963 was fully insured by the FDIC. Cash on deposit with Charles Schwab in the amount of \$60,398 was not fully insured by the FDIC. Management has no reason to believe that solvency of the financial institution is of particular concern at this time.

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2013

NOTE 5 - MARKETABLE SECURITIES

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. Marketable securities are recorded at current market value on the statement of financial position.

	Merrill Lynch	Charles Schwab	Vanguard Group	Total
Account balances as of 12/31/12	\$ 277,966	\$ 1,845,078	\$ 307,164	\$ 2,430,208
Purchase of investments	-	672,431	-	672,431
Sale of investments	-	(233,300)	-	(233,300)
Realized & unrealized gains and losses	(32,225)	215,637	98,598	282,010
Reinvested dividends	-	76,065	6,699	82,764
Account balances as of 12/31/13	<u>\$ 245,741</u>	<u>\$ 2,575,911</u>	<u>\$ 412,461</u>	<u>\$ 3,234,113</u>

The marketable securities on deposit with Merrill Lynch are U.S. Treasury Inflation-Protected Bonds and mutual fund shares in the Vanguard Short Term Corporate Bond Fund. The marketable securities on deposit with Charles Schwab are equity and bond funds. The marketable securities on deposit with Vanguard Group are mutual fund shares in the Vanguard 500 Index Fund and the Vanguard Small Cap Index Fund.

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, 2013, the investments balance of \$3,234,113 was all classified to be Level 1.

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2013

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, 2013 are further classified in accordance with FSP FAS 157-4 as follows:

	Total Investment	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 169,950	\$ 169,950	\$ -	\$ -
Equity Funds	2,006,109	2,006,109	-	-
Bond Funds	1,058,054	1,058,054	-	-
Total	<u>\$ 3,234,113</u>	<u>\$ 3,234,113</u>	<u>-</u>	<u>-</u>

NOTE 7 - FIXED ASSETS

Fixed assets as of December 31, 2013 were as follows:

	Years	Balance 12/31/12	Additions	Deletions	Balance 12/31/13
Furniture/equipment	5	\$ 170,344	<u>\$ 2,972</u>	<u>\$ (156,818)*</u>	\$ 16,498
Less accumulated depreciation		<u>(162,190)</u>			<u>(8,374)</u>
Fixed assets, net		<u>\$ 8,154</u>			<u>\$ 8,124</u>

Depreciation expense was \$3,002 and \$3,190 for the years ended December 31, 2013 and December 31, 2012, respectively.

*There was an adjustment to the fixed asset account as a result of writing off old and obsolete furniture and equipment from the fixed asset records. Fixed asset items in the amount of \$156,818 were removed from the books. The fixed assets were fully depreciated as of December 31, 2013; therefore no gain or loss was recognized on the disposal.

NOTE 8 - ACCRUED VACATION PAYABLE

The Organization's employees earn between ten to fifteen 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 \$21,957 and \$16,573 as of December 31, 2013, and December 31, 2012, respectively.

NOTE 9 - 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, 2013 and December 31, 2012 was \$68,333 and \$58,923, respectively.

National Alopecia Areata Foundation
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2013

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Research	\$ 11,347	\$ 12,787
Newsletter	9,750	9,258
Hoel Ascot Fund	12,490	908
Awareness	1,758	-
Mordecai Foundation	83,334	88,200
Fridolin Charitable Trust	-	15,000
Conference	12,650	7,550
Treatment Development Fund	<u>3,081,000</u>	<u>2,575,000</u>
Total	<u>\$ 3,212,329</u>	<u>\$ 2,708,703</u>

NOTE 11 - EXTRAORDINARY BEQUEST

The Organization was named as the residuary beneficiary of the Marie Ann Riebe Trust dated May 26, 1987. The grantor of the Trust died on January 31, 2011. Successor trustees were appointed and the trust administration commenced on March 27, 2012. The Organization has received total distributions of \$3,680,000 through December 31, 2013 (\$2,750,000 in 2012 and \$930,000 in 2013). The distributions are restricted for research and have been designated as non operating revenue in the statement of activities because of their unusual and extraordinary nature. The proceeds received have been invested in bonds and equities held at Charles Schwab.

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>2013</u>	<u>2012</u>
University of Texas M.D. Anderson Cancer Center	\$ 175,000	\$ 325,000
University of Munster	75,000	-
University of British Columbia	-	46,440
9 th World Congress of Hair Research	<u>2,500</u>	<u>-</u>
Total	<u>\$ 252,500</u>	<u>\$ 371,440</u>

NOTE 13 - COMMITMENTS

In October 2011, the Organization entered into a group sales agreement with Hyatt Regency, San Antonio, TX to hold the 2014 Annual Conference in June 2014. The agreement has a cancellation option whereby the canceling party must provide payment to the non-canceling party in the amount of \$112,660 plus applicable taxes if the cancellation option is exercised within 179 days or less from the start of the official event dates.