

**NATIONAL ALOPECIA AREATA FOUNDATION**

**SAN RAFAEL, CALIFORNIA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2012**

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INDEPENDENT AUDITORS' REPORT


Board of Directors  
National Alopecia Areata Foundation  
San Rafael, California

We have audited the accompanying statement of financial position of National Alopecia Areata Foundation as of December 31, 2012, and the related statement of activities, statement of functional expenses, and statement of cash flows for the year then ended. These financial statements are the responsibility of National Alopecia Areata 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 the National Alopecia Areata Foundation's 2011 financial statements and, in our report dated May 4, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Alopecia Areata Foundation's internal control over financial reporting. Accordingly, we express no such 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.



R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
April 30, 2013

National Alopecia Areata Foundation  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2012  
(With Comparative Totals for December 31, 2011)

	2012	2011
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,134,592	\$ 499,361
Marketable securities	2,430,208	522,170
Accounts receivable	1,896	1,230
Prepaid expenses and other current assets	103,517	98,081
Total current assets	3,670,213	1,120,842
Fixed assets, net of accumulated depreciation	8,154	6,279
Total assets	\$ 3,678,367	\$ 1,127,121
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 9,055	\$ 14,008
Accrued vacation payable	16,573	14,189
Total current liabilities	25,628	28,197
Net assets - Exhibit A:		
Unrestricted	944,036	976,205
Temporarily restricted	2,708,703	122,719
Total net assets	3,652,739	1,098,924
Total liabilities and net assets	\$ 3,678,367	\$ 1,127,121

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, 2012

(With Comparative Totals for the Year Ended December 31, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2012</u>	<u>Total 2011</u>
Operating revenues:				
Donations - general	\$ 505,744	\$ -	\$ 505,744	\$ 427,127
Donations - stock and major donors	289,106	-	289,106	263,693
Restricted grants and donations	-	177,215	177,215	142,411
Conference	251,385	7,550	258,935	243,745
Special events - Links for Locks and Tortoise & Awareness campaign	4,366	-	4,366	56,294
Newsletter and brochures	124,863	-	124,863	127,106
Newsletter and brochures	17,441	9,258	26,699	25,269
Alopecia Areata market place	8,230	-	8,230	4,006
Thirtieth anniversary	169,700	-	169,700	-
Prior year grant reimbursements	8,039	-	8,039	-
Interest and dividend income	61,570	-	61,570	12,754
Net realized and unrealized gains on marketable securities	56,823	-	56,823	24,844
Net assets released from restrictions	358,039	(358,039)	-	-
Total operating revenues	<u>1,855,306</u>	<u>(164,016)</u>	<u>1,691,290</u>	<u>1,327,249</u>
Operating expenses:				
Program services:				
Research	644,005	-	644,005	301,188
Education and support	946,621	-	946,621	867,974
Supportive services:				
Fundraising	184,332	-	184,332	163,748
Management and general	112,517	-	112,517	82,725
Total operating expenses	<u>1,887,475</u>	<u>-</u>	<u>1,887,475</u>	<u>1,415,635</u>
Change in net assets from operations	(32,169)	(164,016)	(196,185)	(88,386)
Nonoperating revenues:				
Treatment Development Fund	-	2,750,000	2,750,000	-
Total nonoperating revenues	<u>-</u>	<u>2,750,000</u>	<u>2,750,000</u>	<u>-</u>
Change in net assets	(32,169)	2,585,984	2,553,815	(88,386)
Net assets, beginning of period	<u>976,205</u>	<u>122,719</u>	<u>1,098,924</u>	<u>1,187,310</u>
Net assets, end of period	<u>\$ 944,036</u>	<u>\$ 2,708,703</u>	<u>\$ 3,652,739</u>	<u>\$ 1,098,924</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, 2012

(With Comparative Totals for the Year Ended December 31, 2011)

	Program Services		Supportive Services		Total 2012	Total 2011
	Research	Education and Support	Fundraising	Management and General		
Expenses:						
Compensation	\$ 211,286	\$ 297,409	\$ 48,621	\$ 56,415	\$ 613,731	\$ 486,996
Employee benefits	10,970	21,289	2,732	2,409	37,400	30,904
Payroll taxes	11,370	24,219	2,750	2,436	40,775	33,415
Retirement plan	17,401	32,305	4,597	4,620	58,923	57,141
Insurance, workers compensation	1,916	3,718	477	421	6,532	4,674
Occupancy	15,419	30,837	6,167	9,251	61,674	59,854
Supplies	1,027	7,701	513	1,027	10,268	9,766
Telephone	739	5,544	370	739	7,392	8,857
Website	6,313	23,675	1,578	-	31,566	26,569
Equipment and depreciation	1,604	5,615	-	802	8,021	6,487
Insurance, liability and key person	2,317	3,244	927	2,781	9,269	13,390
Accounting	1,530	4,591	-	9,182	15,303	10,925
Auditing and legal	2,123	5,306	-	13,796	21,225	7,100
State registrations	-	-	6,978	2,991	9,969	9,876
Licenses, taxes and fees	-	383	2,874	575	3,832	4,027
Bank charges and miscellaneous	-	11,669	2,917	-	14,586	10,929
Dues and subscriptions	1,627	9,760	1,627	3,253	16,267	14,806
Postage and shipping	-	53,884	23,206	-	77,090	73,334
Printing and publications	-	85,235	18,642	-	103,877	103,017
Conference	-	210,408	-	-	210,408	219,153
Research expenses - general	5,124	-	-	-	5,124	6,044
Research grants and registry	353,239	-	-	-	353,239	105,844
Awareness campaign	-	42,680	8,323	-	51,003	25,758
Conventions and meetings	-	16,368	-	1,819	18,187	25,549
Special events -						
Links for Locks & Tortoise and Hair	-	-	2,705	-	2,705	9,667
Marketplace	-	15,251	-	-	15,251	16,412
Support group project and Ascot fund	-	35,530	-	-	35,530	35,141
Thirtieth Anniversary	-	-	48,328	-	48,328	-
Total expenses	\$ 644,005	\$ 946,621	\$ 184,332	\$ 112,517	\$ 1,887,475	\$ 1,415,635

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

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2012

(With Comparative Totals for the Year Ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,553,815	\$ (88,386)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,190	4,153
Net realized and unrealized gains on marketable securities	(56,823)	(24,844)
Changes in certain assets and liabilities:		
Accounts receivable	(666)	13,078
Prepaid expenses and other current assets	(5,436)	(20,405)
Accounts payable	(4,953)	2,360
Accrued vacation payable	<u>2,384</u>	<u>2,712</u>
Net cash provided (used) by operating activities	<u>2,491,511</u>	<u>(111,332)</u>
Cash flows from investing activities:		
Purchase of marketable securities	(1,862,982)	(80,180)
Sale of marketable securities	11,767	-
Acquisition of fixed assets	<u>(5,065)</u>	<u>(2,353)</u>
Net cash provided (used) by investing activities	<u>(1,856,280)</u>	<u>(82,533)</u>
Net increase (decrease) in cash during the period	635,231	(193,865)
Cash balance, beginning of period	<u>499,361</u>	<u>693,226</u>
Cash balance, end of period	<u>\$ 1,134,592</u>	<u>\$ 499,361</u>

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

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2012

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 two classes of net assets: unrestricted net assets and temporarily 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, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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.

G. Marketable securities

Marketable securities are recorded at fair market value.

H. 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.

I. 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.

J. 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.

K. 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, 2012

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.

On July 1, 2011, 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, 2012. 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:

	2012	2011
Westamerica Bank	\$ 281,479	\$ 273,397
Smith Barney	11,130	152,872
Merrill Lynch	49,097	73,092
Charles Schwab	792,886	-
Total	<u>\$ 1,134,592</u>	<u>\$ 499,361</u>

Cash on deposit with Smith Barney in the amount of \$11,130 was fully insured by the Federal Deposit Insurance Corporation (FDIC). Cash on deposit with Merrill Lynch in the amount of \$49,097 was fully insured by the FDIC. Cash on deposit with Westamerica Bank in the amount of \$281,479 was not fully insured by the FDIC. Cash on deposit with Charles Schwab in the amount of \$42,886 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.

NOTE 5 - MARKETABLE SECURITIES

As indicated in note 2K, 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.

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 5 - MARKETABLE SECURITIES (concluded)

	Merrill Lynch	Charles Schwab	Vanguard Group	Total
Account balances as of 12/31/2011	\$ 259,104	\$ -	\$ 263,066	\$ 522,170
Purchase of investments	-	1,817,258	-	1,817,258
Sale of investments	-	(11,767)	-	(11,767)
Realized & unrealized gains and losses	18,862	98	37,863	56,823
Reinvested dividends	-	39,489	6,235	45,724
Account balances as of 12/31/2012	<u>\$ 277,966</u>	<u>\$ 1,845,078</u>	<u>\$ 307,164</u>	<u>\$ 2,430,208</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

SFAS No. 157, *Fair Value Measurements* ("SFAS 157") now referred to as ASC 820 -10 and subsections 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 SFAS 157 for its financial assets and liabilities measured on a recurring and nonrecurring basis. FASB issued FSP 157-2, which delayed the effective date of SFAS 157 by one year for nonfinancial assets and liabilities.

SFAS 157 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.

The following table provides fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of December 31:

	<u>Investment in Securities</u>	
	<u>2012</u>	<u>2011</u>
Level 1: Quoted prices	\$ 2,430,208	\$ 522,170
Level 2: Other significant observable inputs	-	-
Level 3: Significant unobservable inputs	-	-
Total	<u>\$ 2,430,208</u>	<u>\$ 522,170</u>

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2012

NOTE 6 - SUMMARY OF FAIR VALUE EXPOSURE (concluded)

FSP FAS 157-4 which supersedes FSP FAS 157-3 provides further clarification on SFAS 157 in determining an inactive market and a non-distressed transaction. The above investments for December 31, 2012 are further classified in accordance with FSP FAS 157-4 as follows:

	Total Investment	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 201,662	\$ 201,662	\$ -	\$ -
Equity Funds	1,365,535	1,365,535	-	-
Bond Funds	863,011	863,011	-	-
Total	<u>\$ 2,430,208</u>	<u>\$ 2,430,208</u>	<u>-</u>	<u>-</u>

NOTE 7 - FIXED ASSETS

Fixed assets as of December 31, 2012 were as follows:

	Years	Balance 12/31/11	Additions	Deletions	Balance 12/31/12
Furniture/equipment	5	\$ 165,278	<u>\$ 5,066</u>	<u>\$ -</u>	\$ 170,344
Less accumulated depreciation		<u>(158,999)</u>			<u>(162,190)</u>
Fixed assets, net		<u>\$ 6,279</u>			<u>\$ 8,154</u>

Depreciation expense was \$3,190 and \$4,153 for the years ended December 31, 2012 and December 31, 2011, respectively.

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 \$16,573 and \$14,189 as of December 31, 2012, and December 31, 2011, 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, 2012 and December 31, 2011 was \$58,923 and \$57,141, respectively.

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 10 - 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 \$2,750,000 through December 31, 2012. 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. It is anticipated that the trust administration will be concluded in 2013 and that additional distributions will be received; although the amounts of such distributions are not yet determinable.

NOTE 11 - COMMITMENTS

In October 2011, the Organization entered into a group sales agreement with Hyatt Regency, St Louis, MO to hold the 2013 Annual Conference in June 2013. The agreement has a cancellation option whereby the canceling party must provide payment to the non-canceling party in the amount of \$18,364 plus applicable taxes if the cancellation option is exercised within 179 days or less from the start of the official event dates.

NOTE 12 - ALLIANCE WITH THE NATIONAL ECZEMA ASSOCIATION

During the year, the Organization participated in a resource sharing alliance with National Eczema Association for Science and Education. This alliance was formed in 2002. National Eczema Association for Science and Education is an Oregon non-profit public benefit corporation that is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3) and the corresponding provisions of state law. National Eczema Association for Science and Education was formed in 1988 and works to improve the health and quality of life of persons living with atopic dermatitis/eczema, including those who have the disease as well as their loved ones. On September 28, 2007, National Eczema Association for Science and Education changed its name to National Eczema Association. The purposes of the alliance are to enable the parties to:

1. Ascertain the nature of any association between atopic dermatitis and alopecia areata as indicated by recent findings that it may be possible to treat alopecia areata using the same family of medications that are presently being developed for the treatment of atopic dermatitis;
2. Share certain resources so that each organization can better fulfill its mission statement and so that each organization can conduct its activities in a more economical fashion.

The two organizations continue to conduct charitable, fundraising, and governance activities independently of each other and they do not share revenues. For the year ended December 31, 2012, National Eczema Association reimbursed the Organization in the amount of \$27,084 for various expenses.

NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 30, 2013, the date the financial statements were available to be issued.