

**NATIONAL ALOPECIA AREATA FOUNDATION**

**SAN RAFAEL, CALIFORNIA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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**R. J. RICCIARDI, INC.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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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 (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 opinions 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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  
February 23, 2017

National Alopecia Areata Foundation  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2016  
(With Comparative Totals for December 31, 2015)

	2016	2015
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 481,857	\$ 442,598
Investments	2,669,898	2,924,513
Accounts receivable	346,382	100,007
Prepaid expenses and other current assets	21,770	15,042
Total current assets	3,519,907	3,482,160
Non-current assets:		
Grants receivable	100,000	-
Fixed assets, net of accumulated depreciation	7,404	11,572
Total non-current assets	107,404	11,572
Total assets	\$ 3,627,311	\$ 3,493,732
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 57,584	\$ 52,812
Accrued vacation payable	33,437	28,247
Deferred revenue	9,795	12,160
Total current liabilities	100,816	93,219
Net assets:		
Unrestricted	1,767,718	1,449,806
Temporarily restricted	1,758,777	1,950,707
Total net assets	3,526,495	3,400,513
Total liabilities and net assets	\$ 3,627,311	\$ 3,493,732

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

National Alopecia Areata Foundation  
STATEMENTS OF ACTIVITIES  
For the Year Ended December 31, 2016  
(With Comparative Totals for the Year Ended December 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2016</u>	<u>Total 2015</u>
Operating revenues:				
Contributions	\$ 892,538	\$ 71,160	\$ 963,698	\$ 781,782
Grants and sponsorships	-	758,992	758,992	291,844
TDP services	68,404	-	68,404	56,068
Fundraising events	423,843	-	423,843	259,891
Conference registration fees	109,478	-	109,478	118,654
Publications and community services	25,265	-	25,265	22,863
Interest and dividends	101,312	-	101,312	157,030
Net realized and unrealized gains/ (losses) on investments	50,011	-	50,011	(238,024)
Net assets released from restrictions	<u>1,022,082</u>	<u>(1,022,082)</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>2,692,933</u>	<u>(191,930)</u>	<u>2,501,003</u>	<u>1,450,108</u>
Operating expenses:				
Program services:				
Support and education	792,608	-	792,608	712,589
Awareness and advocacy	220,146	-	220,146	318,977
Treatment development	930,406	-	930,406	853,999
Supportive services:				
Fundraising	273,814	-	273,814	166,374
Administration	<u>158,047</u>	<u>-</u>	<u>158,047</u>	<u>129,399</u>
Total operating expenses	<u>2,375,021</u>	<u>-</u>	<u>2,375,021</u>	<u>2,181,338</u>
Change in net assets	317,912	(191,930)	125,982	(731,230)
Net assets, beginning of period	<u>1,449,806</u>	<u>1,950,707</u>	<u>3,400,513</u>	<u>4,131,743</u>
Net assets, end of period	<u>\$ 1,767,718</u>	<u>\$ 1,758,777</u>	<u>\$ 3,526,495</u>	<u>\$ 3,400,513</u>

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

National Alopecia Areata Foundation  
STATEMENTS OF FUNCTIONAL EXPENSES  
For the Year Ended December 31, 2016  
(With Comparative Totals for the Year Ended December 31, 2015)

	Program Services			Supportive Services		Total 2016	Total 2015
	Support and Education	Awareness and Advocacy	Treatment Development	Fundraising	Admin- istration		
Expenses:							
Grants	\$ -	\$ -	\$ 403,247	\$ -	\$ -	\$ 403,247	\$ 400,131
Research program	-	-	171,421	-	-	171,421	110,120
Scholarships	11,267	-	-	-	-	11,267	13,581
Salaries	293,532	88,039	149,015	110,879	50,664	692,129	641,339
Payroll taxes	23,021	6,905	11,687	8,696	3,972	54,281	52,430
Medical benefits	30,258	9,075	15,361	11,430	5,223	71,347	73,824
Retirement benefits	41,463	12,436	21,049	15,662	7,156	97,766	86,506
Workers compensation insurance	2,829	849	1,436	1,069	488	6,671	6,723
Legal fees	-	-	-	-	4,617	4,617	11,276
Accounting and tax preparation	-	-	-	-	38,282	38,282	34,872
Audit fees	-	-	-	-	5,750	5,750	5,500
Website and software maintenance	24,776	5,241	9,053	6,670	1,906	47,646	43,248
Other professional fees	-	200	-	-	-	200	-
Payroll processing fees	2,603	781	1,321	983	450	6,138	6,227
Rent	32,944	6,969	12,037	8,869	2,534	63,353	66,502
Insurance	4,417	934	1,614	1,189	340	8,494	7,952
Supplies	8,223	585	2,123	1,266	591	12,788	12,198
Expendable equipment	1,081	229	395	291	82	2,078	2,165
Telephone and internet	7,046	2,407	1,740	945	617	12,755	12,661
Postage and shipping	24,481	4,268	2,784	11,386	37	42,956	52,717
Printing and publications	18,393	24,375	7,961	39,581	4	90,314	122,008
Equipment repair, maintenance & leasing	14,693	2,061	3,437	2,480	952	23,623	27,583
Travel	34,532	2,810	71,078	1,487	619	110,526	55,987
Conventions and meetings	136,535	5,705	34,199	6,571	5,835	188,845	181,624
Awareness and fundraising events	-	24,281	-	24,281	-	48,562	24,798
Audio and visual	17,313	17,313	8,656	-	-	43,282	26,579
Other taxes, licenses and fees	-	-	-	-	6,695	6,695	5,387
Dues and subscriptions	-	4,225	-	-	745	4,970	8,957
Bank charges and investment fees	-	-	-	19,495	20,321	39,816	27,526
Constituent assistance	61,034	-	-	-	-	61,034	54,406
Depreciation	2,167	458	792	584	167	4,168	4,462
Other expenses	-	-	-	-	-	-	2,049
Total expenses	<u>\$ 792,608</u>	<u>\$ 220,146</u>	<u>\$ 930,406</u>	<u>\$ 273,814</u>	<u>\$ 158,047</u>	<u>\$ 2,375,021</u>	<u>\$ 2,181,338</u>

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

National Alopecia Areata Foundation  
STATEMENTS OF CASH FLOWS  
For the Year Ended December 31, 2016  
(With Comparative Totals for the Year Ended December 31, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 125,982	\$ (731,230)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,168	4,462
Net realized and unrealized (gains)/losses on investments	(50,011)	238,024
Donation of investments	(13,623)	(12,626)
Changes in certain assets and liabilities:		
Accounts receivable	(346,375)	(18,906)
Prepaid expenses and other current assets	(6,728)	6,538
Accounts payable	4,772	(183,224)
Accrued vacation payable	5,190	5,272
Deferred revenue	(2,365)	4,210
Net cash provided (used) by operating activities	(278,990)	(687,480)
Cash flows from investing activities:		
Purchase of investments	(830,758)	(5,453,888)
Sale of investments	1,149,007	5,693,868
Net cash provided (used) by investing activities	318,249	239,980
Net increase (decrease) in cash during the period	39,259	(447,500)
Cash balance, beginning of period	442,598	890,098
Cash balance, end of period	\$ 481,857	\$ 442,598

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

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

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, 2016

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/Grants 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.

For grants receivable due over one year, the Organization has not recorded the discount to net present value because the amounts were considered immaterial.

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.

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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.

M. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 23, 2017, 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, 2016. 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:

	2016	2015
Westamerica Bank	\$ 322,807	\$ 232,796
Morgan Stanley	144,932	202,380
Charles Schwab	14,118	7,422
Total	<u>\$ 481,857</u>	<u>\$ 442,598</u>

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 4 - CASH AND CASH EQUIVALENTS (concluded)

Cash on deposit with Westamerica Bank was insured up to the \$250,000 blanket umbrella by the Federal Deposit Insurance Corporation (FDIC). The remaining balances were uninsured and held by the financial institution in the Organization's name. It is the opinion of management that the solvency of the financial institution is not of particular concern at this time. Cash on deposit with Morgan Stanley in the amount of \$144,932 was fully insured by the FDIC and other insurance provided by Morgan Stanley. Cash on deposit with Charles Schwab in the amount of \$14,118 was fully insured by the FDIC.

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 12/31/15	\$ -	\$ 2,924,513	\$ 2,924,513
Purchase of investments/reinvested dividends	11,576	832,805	844,381
Sale of investments	(6,672)	(1,142,335)	(1,149,007)
Realized & unrealized gains and losses	46	49,965	50,011
Account balances as of 12/31/16	\$ 4,950	\$ 2,664,948	\$ 2,669,898

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).

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2016

NOTE 6 - SUMMARY OF FAIR VALUE EXPOSURE (concluded)

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, 2016, the investments balance of \$2,669,898 was all classified to be Level 1.

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, 2016 are further classified in accordance with FSP FAS 157-4 as follows:

	Total Investment	Level 1	Level 2	Level 3
Stocks	\$ 987	\$ 987	\$ -	\$ -
ETFs & CEFs	468,893	468,893	-	-
Mutual Funds	2,200,018	2,200,018	-	-
Total	<u>\$ 2,669,898</u>	<u>\$ 2,669,898</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 - FIXED ASSETS

Fixed assets as of December 31, 2016 were as follows:

	Years	Balance 12/31/15	Additions	Deletions	Balance 12/31/16
Furniture/equipment	5	\$ 28,124	\$ -	\$ -	\$ 28,124
Less accumulated depreciation		(16,552)			(20,720)
Fixed assets, net		<u>\$ 11,572</u>			<u>\$ 7,404</u>

Depreciation expense was \$4,168 and \$4,462 for the years ended December 31, 2016 and December 31, 2015, 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 \$33,437 and \$28,247 as of December 31, 2016, and December 31, 2015, respectively.

NOTE 9 - FUNDRAISING EVENTS, NET

Fundraising events, net during the years ended December 31 were as follows:

	2016	2015
Awareness and fundraising events income	\$ 423,843	\$ 259,891
Related expenses	(48,562)	(24,798)
Awareness and fundraising events, net	<u>\$ 375,281</u>	<u>\$ 235,093</u>

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2016

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, 2016 and December 31, 2015 was \$97,766 and \$86,506, respectively.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Treatment Development Fund	\$ 1,758,777	\$ 1,950,707

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:

	2016	2015
Columbia University	\$ 195,000	\$ 67,500
Leavett Medical Associates of Florida	3,500	5,000
The Children's Hospital of Philadelphia	15,694	23,541
University of Bradford	125,000	-
University of Minnesota	173,254	74,252
University of Munster	175,000	75,000
Total	\$ 687,448	\$ 245,293

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 \$5,726 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, 2017	\$ 62,518
Year ending December 31, 2018	64,117
Year ending December 31, 2019	60,118
Total	\$ 186,753

NOTE 14 - COMMITMENTS

In March 2015, the Organization entered into a group sales agreement with Hyatt Regency, Miami, Florida to hold the 2017 Annual Conference in June 2017. The agreement has a cancellation option whereby the canceling party must provide payment to the non-canceling party in the amount of \$119,524 plus applicable taxes if the cancellation option is exercised within 179 days or less from the start of the official event dates.

National Alopecia Areata Foundation  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

NOTE 15 - RECLASSIFICATIONS

Certain amounts in the December 31, 2015 financial statements, specifically the revenue and expense categories in the statement of activities and statement of functional expenses, have been reclassified to conform to the December 31, 2016 presentation. These reclassifications have no effect on the change in net assets as previously reported.