

**The Food Allergy &  
Anaphylaxis Network, Inc.**

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2010 AND 2009

WATKINS | MEEGAN

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Independent Auditors' Report

To the Board of Directors  
The Food Allergy & Anaphylaxis Network, Inc.  
Fairfax, Virginia

We have audited the accompanying statements of financial position of The Food Allergy & Anaphylaxis Network, Inc. (FAAN), as of December 31, 2010 and 2009, and the related statements of activities and change in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of FAAN's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Food Allergy & Anaphylaxis Network, Inc., as of December 31, 2010 and 2009, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Bethesda, Maryland  
July 22, 2011

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2010	2009
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 2,936,207	\$ 3,830,183
Marketable Securities	-	5,362
Certificates of Deposit	418,025	418,025
Accounts Receivable	43,783	49,632
Grants and Contributions Receivable	72,482	170,926
Inventory	127,065	145,807
Prepaid Expenses and Deposits	195,211	142,812
Total Current Assets	3,792,773	4,762,747
<b>PROPERTY AND EQUIPMENT, Net</b>	129,805	162,337
<b>DEPOSITS</b>	17,730	25,580
<b>457(b) RETIREMENT INVESTMENTS</b>	42,745	212,408
Total Assets	\$ 3,983,053	\$ 5,163,072

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 234,283	\$ 301,917
Grants Payable, Current Portion	730,229	934,622
Deferred Revenue, Current Portion	494,892	178,304
Deferred Lease Incentive, Current Portion	19,522	11,978
Total Current Liabilities	1,478,926	1,426,821
<b>LONG-TERM LIABILITIES</b>		
Grants Payable, Net of Current Portion	100,000	350,378
Deferred Revenue, Net of Current Portion	167,679	362,413
Deferred Lease Incentive, Net of Current Portion	21,617	41,139
457(b) Retirement Obligation	42,745	212,408
Total Liabilities	1,810,967	2,393,159
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	935,701	818,644
Board Designated	500,000	787,486
Total Unrestricted	1,435,701	1,606,130
Temporarily Restricted	736,385	1,163,783
Total Net Assets	2,172,086	2,769,913
Total Liabilities and Net Assets	\$ 3,983,053	\$ 5,163,072

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	Year Ended December 31,					
	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Contributions and Grants	\$ 3,595,525	\$ 260,541	\$ 3,856,066	\$ 2,860,233	\$ 928,990	\$ 3,789,223
Membership Dues	531,568	-	531,568	540,303	-	540,303
Resource Revenue	201,780	-	201,780	300,314	-	300,314
Special Mailing Revenue	17,487	-	17,487	34,634	-	34,634
Special Events Revenue, Net of Expenses of \$28,880 in 2010 and \$80,639 in 2009	89,288	-	89,288	280,077	-	280,077
Patient Conference Revenue	60,445	-	60,445	49,790	-	49,790
Special Programs	10,500	-	10,500	2,500	-	2,500
Interest and Dividends	12,889	-	12,889	21,915	-	21,915
Realized Loss on Sale of Investments	-	-	-	(106)	-	(106)
Miscellaneous	21	-	21	11	-	11
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	687,939	(687,939)	-	903,821	(903,821)	-
Total Support and Revenue	5,207,442	(427,398)	4,780,044	4,993,492	25,169	5,018,661
Expenses						
Program Costs	3,889,658	-	3,889,658	5,285,132	-	5,285,132
General and Administrative	814,788	-	814,788	647,824	-	647,824
Fundraising	673,425	-	673,425	543,717	-	543,717
Total Expenses	5,377,871	-	5,377,871	6,476,673	-	6,476,673
CHANGE IN NET ASSETS	(170,429)	(427,398)	(597,827)	(1,483,181)	25,169	(1,458,012)
NET ASSETS, Beginning of Year	1,606,130	1,163,783	2,769,913	3,089,311	1,138,614	4,227,925
NET ASSETS, End of Year	\$ 1,435,701	\$ 736,385	\$ 2,172,086	\$ 1,606,130	\$ 1,163,783	\$ 2,769,913

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2010

	<u>Program Costs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 1,534,879	\$ 470,284	\$ 249,395	\$ 2,254,558
Payroll Taxes	107,267	32,867	17,429	157,563
Employee Benefits	173,611	53,194	28,209	255,014
Retirement	23,854	7,309	3,876	35,039
Cost of Resources Sold	55,789	-	-	55,789
Grants and Scholarships Awarded	42,136	-	-	42,136
Product Development and Design	19,413	-	-	19,413
Contract Labor	10,554	2,496	1,406	14,456
Rent	-	255,900	-	255,900
Travel	244,483	13,063	11,238	268,784
Conferences	79,411	-	-	79,411
Accounting and Legal	-	49,574	-	49,574
Other Professional Fees	284,179	10,888	19,981	315,048
Supplies	63,409	12,930	4,953	81,292
Insurance	18,142	3,763	-	21,905
Dues and Subscriptions	4,680	2,190	622	7,492
Postage and Shipping	175,300	2,883	34,886	213,069
Equipment Rental and Maintenance	54,908	42,794	1,345	99,047
Service Charges	71,502	6,356	57,879	135,737
Meals and Entertainment	63,508	9,190	2,454	75,152
Property and Other Taxes	-	2,852	-	2,852
Advertising	109,706	-	-	109,706
Telephone, Computer, and Internet	57,070	64,117	12,013	133,200
Depreciation and Amortization	-	45,978	-	45,978
Printing and Publications	165,953	640	99,914	266,507
Staff Training	6,535	1,277	2,260	10,072
Storage	5,550	-	-	5,550
Staff Recruiting	340	3,406	578	4,324
In-Kind Expenses	154,006	-	59,891	213,897
Other	42,377	92,104	14,925	149,406
Overhead Allocation	321,096	(371,267)	50,171	-
	<u>\$ 3,889,658</u>	<u>\$ 814,788</u>	<u>\$ 673,425</u>	<u>\$ 5,377,871</u>
Total Expenses	<u>\$ 3,889,658</u>	<u>\$ 814,788</u>	<u>\$ 673,425</u>	<u>\$ 5,377,871</u>

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2009

	<u>Program Costs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 1,574,897	\$ 398,755	\$ 204,499	\$ 2,178,151
Payroll Taxes	118,313	29,956	15,363	163,632
Employee Benefits	161,279	40,835	20,942	223,056
Retirement	29,370	7,436	3,813	40,619
Cost of Resources Sold	89,537	-	-	89,537
Grants and Scholarships Awarded	1,571,147	-	-	1,571,147
Product Development and Design	23,490	-	-	23,490
Contract Labor	13,365	11,458	443	25,266
Rent	-	288,065	-	288,065
Travel	151,953	6,932	3,262	162,147
Conferences	84,769	-	-	84,769
Accounting and Legal	8,032	47,108	303	55,443
Other Professional Fees	282,004	245	17,053	299,302
Supplies	50,487	36,052	1,763	88,302
Insurance	16,751	4,062	-	20,813
Dues and Subscriptions	4,064	1,688	995	6,747
Postage and Shipping	239,041	1,829	28,934	269,804
Equipment Rental and Maintenance	45,389	30,002	-	75,391
Service Charges	64,064	4,220	44,071	112,355
Meals and Entertainment	40,786	9,166	150	50,102
Property and Other Taxes	-	2,949	-	2,949
Advertising	5,237	-	-	5,237
Telephone, Computer, and Internet	45,790	57,264	2,887	105,941
Depreciation and Amortization	-	33,925	-	33,925
Printing and Publications	162,607	20,081	87,483	270,171
Staff Training	7,520	4,745	-	12,265
Storage	5,403	-	-	5,403
Staff Recruiting	1,471	89,928	-	91,399
In-Kind Expenses	49,574	-	18,708	68,282
Other	33,318	1,836	17,809	52,963
Overhead Allocation	405,474	(480,713)	75,239	-
	<u>\$ 5,285,132</u>	<u>\$ 647,824</u>	<u>\$ 543,717</u>	<u>\$ 6,476,673</u>
Total Expenses	<u>\$ 5,285,132</u>	<u>\$ 647,824</u>	<u>\$ 543,717</u>	<u>\$ 6,476,673</u>

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (597,827)	\$ (1,458,012)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation and Amortization	45,978	33,925
Realized Loss on Sale of Marketable Securities	-	106
Donated Marketable Securities	-	(4,370)
Deferred Lease Incentive	(11,978)	53,117
Bad Debt Expense	90,454	-
Change In:		
Accounts Receivable	5,849	(13,921)
Grants and Contributions Receivable	7,990	117,648
Inventory	18,742	1,634
Prepaid Expenses and Deposits	(52,399)	(25,264)
Deposits	7,850	(6,228)
457(b) Retirement Investments	169,663	(52,802)
Accounts Payable and Accrued Expenses	(67,634)	(177,614)
Grants Payable	(454,771)	315,752
Deferred Revenue	121,854	(43,775)
457(b) Retirement Obligation	(169,663)	52,802
Net Cash Used in Operating Activities	(885,892)	(1,207,002)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(13,446)	(135,011)
Proceeds from Sales/Maturities of Marketable Securities	5,362	4,058,908
Purchase of Certificates of Deposit	-	(425,326)
Net Cash Provided by (Used in) Investing Activities	(8,084)	3,498,571
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(893,976)	2,291,569
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	3,830,183	1,538,614
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	\$ 2,936,207	\$ 3,830,183

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

The Food Allergy & Anaphylaxis Network, Inc. (FAAN), is a national nonprofit organization established in 1991 to raise public awareness, to provide advocacy and education, and to advance research on behalf of all of those affected by food allergies and anaphylaxis.

Basis of Accounting

The accompanying financial statements of FAAN have been prepared on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligation is incurred.

Nature of Activities

FAAN's main sources of revenue can be summarized as follows:

*Contributions and Grants* - Donations that are received from private, corporate, and governmental sources, as well as from special events and FAAN walks.

*Membership Dues* - Income derived from sales of one-, two-, three-year, and lifetime memberships to FAAN. As part of the benefits of membership, members receive an internally produced bimonthly newsletter.

*Resource Revenue* - Revenue derived from the sale of educational resource materials to members and the general public.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For financial statement purposes, FAAN considers all cash, checking, savings, and money market funds to be cash equivalents.

Marketable Securities

Marketable securities include donated stocks. Donated stocks are reflected as contributions at their fair values at the date of receipt. It is FAAN's policy to convert these stocks to cash as soon as practical. Realized gains and losses are recognized upon sale or disposal.

Certificates of Deposit

Certificates of deposit are held with various banks and are recorded at cost.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

FAAN records trade, grants, and contribution receivables, net of an allowance for doubtful accounts. The allowance is determined based on a review of the estimated collectibility of the specific assets, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged-off against the allowance for doubtful accounts once management determines an amount, or a portion thereof, to be uncollectible. Management considers receivables at December 31, 2010 and 2009, to be collectible. Bad debt expense for the years ended December 31, 2010 and 2009, was \$90,454 and \$0, respectively.

Inventory

Inventory, which consists mainly of educational materials, is stated at the lower of cost or estimated net realizable value determined using the first-in-first-out (FIFO) method. Cost of inventory sold is reflected in cost of resources sold under program costs on the statements of functional expenses and in program costs under expenses on the statements of activities and change in net assets when individual items are sold.

Shipping and Handling Costs

Shipping and handling costs of resource revenue are expensed to postage and shipping expense and are considered program costs.

Property and Equipment

Property and equipment consists of fixed asset purchases greater than \$1,000 with an estimated useful life of greater than one year. Fixed assets are recorded at historical cost (or fair market value, if donated) and are depreciated using an accelerated method over useful lives of between 5 and 10 years. Software is amortized on the straight-line basis over a useful life of 3 years. Leasehold improvements are amortized over the remaining non-cancelable lease term when the improvements are placed in service.

Grants Payable

Grants payable are accrued for financial statement purposes upon the approval by the medical board of the grant recipient. Until such approval occurs, the approved grant commitments are transferred from undesignated net assets to designated net assets - Research Grants.

Net Assets

FAAN's net assets are classified into two categories: unrestricted and temporarily restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets are contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or the contributions are used for their restricted purpose, at which time they are reported on the statements of activities and change in net assets as net assets released from restrictions. FAAN has no permanently restricted net assets.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

FAAN is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. FAAN has not been classified as a private foundation by the Internal Revenue Service (IRS). FAAN is subject to income tax on unrelated business income related to advertising revenues. FAAN did not have any unrelated business income for the years ended December 31, 2010 and 2009. Tax years prior to 2007 are no longer subject to examination by the IRS and the tax jurisdiction of Virginia.

Revenue Recognition

Membership dues received from members are recognized as revenue in the applicable membership period. Deferred revenue includes that portion of dues receipts which apply to future periods.

Functional Expense Allocations

FAAN's expenses have been reported based on natural account classification in the statements of functional expenses and allocated on a functional basis to program costs, general and administrative, and fundraising activities based upon the amount of time spent on each functional activity or the specific identification of the expenses incurred. The allocation of costs on a functional basis to program costs, general and administrative, and fundraising activities is reported on the statements of activities and change in net assets.

Reclassification

Certain balances in the 2009 financial statements have been reclassified to conform to the 2010 financial statement presentation.

Subsequent Events

FAAN has evaluated events and transactions for potential recognition or disclosure through July 22, 2011, the date the financial statements were available to be issued.

NOTE 2 – CONCENTRATION OF CREDIT RISK

FAAN maintains cash balances at financial institutions and, at times, these balances may exceed the \$250,000 amount insured by the Federal Deposit Insurance Corporation. The amount of uninsured deposits at December 31, 2010, was approximately \$1,700,000.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 3 – MARKETABLE SECURITIES

Marketable securities consist of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Corporate Stocks	\$ -	\$ 5,362
	<u>\$ -</u>	<u>\$ 5,362</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Office Furniture and Equipment	\$ 125,148	\$ 123,637
Computer Equipment	87,201	75,266
Software	276,767	276,767
Leasehold Improvements	13,378	13,378
	<u>502,494</u>	<u>489,048</u>
Accumulated Depreciation and Amortization	<u>(372,689)</u>	<u>(326,711)</u>
	<u>\$ 129,805</u>	<u>\$ 162,337</u>

NOTE 5 – GRANTS PAYABLE

During 2010 and 2009, FAAN awarded research grants to universities and medical centers totaling \$42,136 and \$1,571,147, respectively. An independent medical board reviews all grant proposals and recommends which proposals to fund. Most of the grant periods are for two years with semiannual progress payments to be made. Each grant includes a 10 percent retainer to be paid upon completion of the grant project. Grants payable consist of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Grants Payable - Less Than One Year	\$ 730,229	\$ 934,622
Grants Payable - One to Five Years	<u>100,000</u>	<u>350,378</u>
	<u>\$ 830,229</u>	<u>\$ 1,285,000</u>

No discounts for grants to be paid in the future was recorded, as the cost of the grants approximates present value.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 5 – GRANTS PAYABLE (Continued)

As of December 31, 2009, FAAN's board of directors had approved funding future research totaling \$341,000. These grants were not expensed as of December 31, 2009, because they were conditioned upon the grantee institutional review board (IRB) approving the research. There were no FAAN Board-approved conditional grants at December 31, 2010.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Purpose Restrictions	\$ 650,385	\$ 904,189
Time Restrictions	86,000	259,594
	<u>\$ 736,385</u>	<u>\$ 1,163,783</u>

NOTE 7 – BOARD DESIGNATED NET ASSETS

Board designated net assets consist of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Operating Reserves	\$ 500,000	\$ 500,000
Research Grants	-	287,486
	<u>\$ 500,000</u>	<u>\$ 787,486</u>

NOTE 8 – DONATED GOODS AND SERVICES

Donated goods and services are recorded at their estimated fair values at the date of donation. During 2010 and 2009, FAAN received stock donations with a total value of \$0 and \$4,370, respectively. FAAN also received donated goods and services related to its Walks totaling \$213,897 and \$68,282 for the years ended December 31, 2010 and 2009, respectively.

NOTE 9 – RETIREMENT PLANS

FAAN has adopted a 401(k) retirement plan in which participants may elect to defer up to 15 percent of their annual compensation, up to the legal limit. In order to be eligible to participate, the employee must be 18 years old and have completed one year of service.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 9 – RETIREMENT PLANS (Continued)

FAAN makes an employer contribution to the plan if the participant was employed on the last day of the plan year (regardless of hours of service). The amount of the employer contribution is a discretionary amount equal to a percentage of the participants' salary deferral amount, which percentage will be determined each year by FAAN. FAAN also contributes an additional 3 percent of eligible employees' gross wages regardless of whether the employee elected salary deferral. During 2010 and 2009, FAAN contributed \$35,039 and \$41,092 to the plan, respectively, of which \$0 and \$473, respectively, has been allocated to special events expenses in the statements of activities and change in net assets. FAAN did not make a discretionary contribution in 2009 or 2010.

FAAN has established a Section 457 Deferred Compensation Plan to provide a select group of management or highly compensated employees the ability to defer a portion of their compensation to provide retirement benefits. The Plan also provides for discretionary contributions by the FAAN. The Plan was established to comply with the requirements of Section 457 of the Internal Revenue Code. Participants are able to defer the maximum amount allowed under Code Section 457 (\$16,500 for 2010 and 2009). Plan assets consist of mutual funds. Employer contributions become immediately vested to employees. FAAN made no discretionary contributions for the years ended December 31, 2010 and 2009. FAAN has recorded an asset and liability related to the Plan of \$42,745 and \$212,408 at December 31, 2010 and 2009, respectively.

NOTE 10 – LINE OF CREDIT

As of December 31, 2010, FAAN has a \$50,000 unsecured line of credit available for future operating use which will remain open until FAAN requests for it to be closed, or until closed by the bank. Interest on outstanding balances is charged at *The Wall Street Journal* prime rate plus one percent, or 4.25 percent at December 31, 2010. No amount was borrowed against this line as of December 31, 2010 or 2009.

NOTE 11 – ALLOCATION OF JOINT COSTS

In 2010 and 2009, FAAN conducted activities that included requests for contributions, as well as program components. The activities consisted of walk-a-thons. The costs of conducting these activities are not specifically attributable to particular components of the activities (joint costs). These joint costs were allocated as follows:

	December 31,	
	2010	2009
Fundraising	\$ 297,194	\$ 275,659
Program - Awareness	730,894	733,768
	<u>\$ 1,028,088</u>	<u>\$ 1,009,427</u>

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 12 – COMMITMENTS

Leases

In 2007, FAAN entered into a non-cancellable lease for two office spaces that expires in October 2012. The lease calls for current monthly rent on the two office spaces of \$20,756 and 3 percent annual escalations effective November of each year. Rent expense, including lease incentives such as free rent, is recognized on a straight-line basis over the lease terms of the two office spaces.

FAAN also pays its proportionate share of the operating expenses. A five-year lease term extension is available. Total rent expense for 2010 and 2009 was \$255,900 and \$288,065, respectively.

Minimum future lease payments required under the terms of the lease are as follows:

<u>Year Ending December 31,</u>	
2011	\$ 257,873
2012	<u>220,243</u>
	<u>\$ 478,116</u>

Employment Agreement

On April 23, 2010, FAAN signed an employment agreement with its CEO, effective through March 31, 2011, and renewable annually thereafter. The agreement states that if she is terminated other than for cause, FAAN shall provide six months' salary at her current salary level. In the event that the agreement is not renewed by FAAN, FAAN shall provide three months of salary and benefits at her current salary level. The CEO did not renew her contract on March 31, 2011. Effective June 1, 2011, a new CEO was hired and will receive four months' salary as severance if certain conditions are met, as defined by the agreement.

Meeting Commitments

FAAN has contracts with hotels for holding future conferences during 2011. If a contract is cancelled prior to the date of the conference, FAAN is required to pay cancellation fees as stipulated in the contracts, the amounts of which are dependent upon the respective dates of cancellation. Due to the numerous variables involved, FAAN's ultimate liability under these contracts cannot be determined; however, the estimated costs range from \$0 to \$42,000 depending on the nature, timing, and number of conference cancellations. As of December 31, 2010, there are no plans to cancel any future conferences.

THE FOOD ALLERGY & ANAPHYLAXIS NETWORK, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 13 – FAIR VALUE MEASUREMENTS

FAAN has determined the fair value of certain assets and liabilities in accordance with the FASC topic on *Fair Value Measurements and Disclosures*. Fair values of assets and liabilities measured on a recurring basis at December 31, 2010 and 2009, are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2010</u>				
<u>Assets</u>				
457(b) Retirement Investments Mutual Funds	\$ 42,745	\$ 42,745	\$ -	\$ -
<u>Liabilities</u>				
457(b) Retirement Obligation	(42,745)	(42,745)	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2009</u>				
<u>Assets</u>				
Corporate Stocks	\$ 5,362	\$ 5,362	\$ -	\$ -
457(b) Retirement Investments Mutual Funds	48,621	48,621	-	-
<u>Liabilities</u>				
457(b) Retirement Obligation	(48,621)	(48,621)	-	-
	<u>\$ 5,362</u>	<u>\$ 5,362</u>	<u>\$ -</u>	<u>\$ -</u>

All assets have been valued using a market approach. There were no changes in the valuation techniques during the current year. Mutual funds within the 457(b) plan are comprised principally of index funds (approximately 81 percent), U.S. government securities funds (approximately 16 percent), and index funds (approximately 3 percent). The value of the 457(b) obligations is based upon the underlying fair value of the 457(b) plan assets.

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