

Food Allergy Research & Education, Inc.

**Financial Statements
and Independent Auditor's Report**

December 31, 2014 and 2013 (As Restated)

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

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Independent Auditor's Report

To the Board of Directors
Food Allergy Research & Education, Inc.
McLean, Virginia

We have audited the accompanying financial statements of Food Allergy Research & Education, Inc. (FARE), which comprise the statement of financial position as of December 31, 2014, the related statements of activities and change in net assets, 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 did not audit the financial statements of the Aimmune Therapeutics, Inc. (ATI) (formerly known as Allergen Research Corporation), the investment in which, as described in Note 6 to the financial statements, is accounted for by the equity method of accounting. The investment in ATI was \$150,505 as of December 31, 2014, and the equity in loss of ATI and gain on issuance of ATI stock was \$2,697,712 and \$25,295, respectively, for the year then ended. The financial statements of ATI were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for ATI, is based solely on the report of the other auditors. 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 of 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 entity'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 entity'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 opinion.

Opinion

In our opinion, based on our audit and the report of the other auditors, the 2014 financial statements referred to above present fairly, in all material respects, the financial position of Food Allergy Research & Education, Inc. as of December 31, 2014, and the change 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.

Adjustments to Prior Period Financial Statements

The financial statements of Food Allergy Research & Education, Inc. as of December 31, 2013 were audited by other auditors, whose opinion dated August 21, 2014, on those statements was unmodified. As discussed in Note 13, FARE restated its 2013 financial statements during the current year to correct an error in accounting for its share of equity in the loss of ATI based on its corrected ownership percentage in ATI's voting stock in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2013 financial statements before the restatement.

As part of our audit of the 2014 financial statements, we also audited the adjustments described in Note 13 that were applied to restate the 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2013 financial statements of FARE other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.



Bethesda, Maryland
October 2, 2015

FOOD ALLERGY RESEARCH & EDUCATION, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2014	2013 (As Restated)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,514,132	\$ 9,332,593
Accounts Receivable	105,820	318,402
Pledges Receivable, Current Portion	3,376,252	972,980
Inventory	45,538	47,743
Prepaid Expenses and Other Assets	365,663	150,589
Total Current Assets	9,407,405	10,822,307
 PROPERTY AND EQUIPMENT, Net	 88,971	 126,137
 INVESTMENT IN AIMMUNE THERAPEUTICS, INC.	 150,505	 2,822,922
 PLEDGES RECEIVABLE, Net	 172,137	 694,594
 DEPOSITS	 43,143	 24,027
 Total Assets	 \$ 9,862,161	 \$ 14,489,987
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 633,592	\$ 1,197,734
Grants Payable, Current Portion	1,783,273	3,789,909
Deferred Rent, Current Portion	13,504	3,202
Deferred Revenue	3,449	1,500
Total Current Liabilities	2,433,818	4,992,345
 LONG-TERM LIABILITIES		
Grants Payable, Net of Discount and Current Portion	745,977	1,090,783
Deferred Rent, Net of Current Portion	121,976	134,606
Total Liabilities	3,301,771	6,217,734
 NET ASSETS		
Unrestricted:		
Undesignated	924,509	3,218,226
Board Designated	685,320	500,000
Total Unrestricted	1,609,829	3,718,226
Temporarily Restricted	4,950,561	4,554,027
Total Net Assets	6,560,390	8,272,253
Total Liabilities and Net Assets	\$ 9,862,161	\$ 14,489,987

FOOD ALLERGY RESEARCH & EDUCATION, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 4,845,211	\$ 3,115,465	\$ 7,960,676
Special Events Revenue	5,395,747	41,696	5,437,443
Educational Conference Revenue and Grants	196,250	-	196,250
Other Revenue	43,724	-	43,724
Interest and Dividends	7,932	-	7,932
Net Assets Released from Restrictions –			
Satisfaction of Program Restrictions	<u>2,760,627</u>	<u>(2,760,627)</u>	<u>-</u>
Total Support and Revenue	13,249,491	396,534	13,646,025
EXPENSES			
Program Services			
Research	2,304,000	-	2,304,000
Education	2,227,027	-	2,227,027
Advocacy	710,838	-	710,838
Awareness	3,206,811	-	3,206,811
Total Program Services	<u>8,448,676</u>	<u>-</u>	<u>8,448,676</u>
Supporting Services			
General and Administrative	969,127	-	969,127
Fundraising	3,267,668	-	3,267,668
Total Supporting Services	<u>4,236,795</u>	<u>-</u>	<u>4,236,795</u>
Total Expenses	<u>12,685,471</u>	<u>-</u>	<u>12,685,471</u>
CHANGE IN NET ASSETS BEFORE EQUITY IN LOSS OF AIMMUNE THERAPEUTICS, INC. AND GAIN ON ISSUANCE OF AIMMUNE THERAPEUTICS, INC. STOCK			
	564,020	396,534	960,554
Equity in Loss of Aimmune Therapeutics, Inc.	(2,697,712)	-	(2,697,712)
Gain on Issuance of Aimmune Therapeutics, Inc. Stock	<u>25,295</u>	<u>-</u>	<u>25,295</u>
CHANGE IN NET ASSETS	(2,108,397)	396,534	(1,711,863)
NET ASSETS, Beginning of Year	<u>3,718,226</u>	<u>4,554,027</u>	<u>8,272,253</u>
NET ASSETS, End of Year	<u>\$ 1,609,829</u>	<u>\$ 4,950,561</u>	<u>\$ 6,560,390</u>

FOOD ALLERGY RESEARCH & EDUCATION, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

YEAR ENDED DECEMBER 31, 2013 (AS RESTATED)

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions	\$ 7,516,732	\$ 3,198,945	\$ 10,715,677
Special Events Revenue	5,738,212	10,000	5,748,212
Educational Conference Revenue and Grants	521,449	-	521,449
Other Revenue	79,072	-	79,072
Interest and Dividends	15,222	-	15,222
Net Assets Released from Restrictions – Satisfaction of Program Restrictions	2,947,779	(2,947,779)	-
Total Support and Revenue	16,818,466	261,166	17,079,632
EXPENSES			
Program Services			
Research	3,130,277	-	3,130,277
Education	1,394,219	-	1,394,219
Advocacy	1,009,109	-	1,009,109
Awareness	4,197,774	-	4,197,774
Total Program Services	9,731,379	-	9,731,379
Supporting Services			
General and Administrative	846,411	-	846,411
Fundraising	3,586,811	-	3,586,811
Total Supporting Services	4,433,222	-	4,433,222
Total Expenses	14,164,601	-	14,164,601
CHANGE IN NET ASSETS BEFORE EQUITY IN LOSS OF AIMMUNE THERAPEUTICS, INC. AND GAIN ON ISSUANCE OF AIMMUNE THERAPEUTICS, INC. STOCK			
	2,653,865	261,166	2,915,031
Equity in Loss of Aimmune Therapeutics, Inc.	(1,342,793)	-	(1,342,793)
Gain on Issuance of Aimmune Therapeutics, Inc. Stock	940,554	-	940,554
CHANGE IN NET ASSETS	2,251,626	261,166	2,512,792
NET ASSETS, Beginning of Year	1,466,600	4,292,861	5,759,461
NET ASSETS, End of Year	\$ 3,718,226	\$ 4,554,027	\$ 8,272,253

FOOD ALLERGY RESEARCH & EDUCATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014

	Program Services				Supporting Services			Total Expenses	
	Research	Education	Advocacy	Awareness	Total Program Services	General and Administrative	Fundraising		Total Supporting Services
Salaries	\$ 624,328	\$ 668,677	\$ 372,787	\$ 1,807,245	\$ 3,473,037	\$ 503,733	\$ 1,159,557	\$ 1,663,290	\$ 5,136,327
Payroll Taxes	30,006	50,187	26,358	139,640	246,191	32,041	84,023	116,064	362,255
Employee Benefits	49,137	57,709	45,600	155,259	307,705	36,805	80,788	117,593	425,298
Retirement	16,434	18,644	10,497	49,748	95,323	10,995	31,146	42,141	137,464
Total Salaries and Related Costs	719,905	795,217	455,242	2,151,892	4,122,256	583,574	1,355,514	1,939,088	6,061,344
Grant Expenses	1,171,773	234,065	-	-	1,405,838	-	655	655	1,406,493
Cost of Goods Sold	-	23,263	-	-	23,263	-	-	-	23,263
Event Expenses	17,204	292,072	213	71,159	380,648	887	821,931	822,818	1,203,466
Mail Shop Fees	-	-	12,143	12,143	24,286	-	24,206	24,206	48,492
Professional Fees	252,895	354,637	172,712	159,720	939,964	93,103	248,029	341,132	1,281,096
Office Expenses	10,048	257,405	9,517	200,037	477,007	28,376	249,747	278,123	755,130
Occupancy Expenses	32,631	34,927	16,895	163,726	248,179	110,341	110,884	221,225	469,404
Travel and Entertainment	41,819	168,134	13,164	141,569	364,686	19,726	112,323	132,049	496,735
Advertising and Promotion	15,713	-	-	8,195	23,908	240	47,879	48,119	72,027
Information Technology	33,522	53,412	19,079	161,745	267,758	107,762	115,476	223,238	490,996
Insurance	2,910	3,115	1,507	7,568	15,100	9,840	15,810	25,650	40,750
Depreciation and Amortization	3,895	4,170	2,017	10,131	20,213	13,172	8,648	21,820	42,033
Interest Expense and Credit Card and Bank Fees	899	5,344	8,354	116,497	131,094	2,976	81,311	84,287	215,381
Donated Goods	-	-	-	-	-	-	74,518	74,518	74,518
Bad Debt	-	-	-	-	-	64	200	264	264
Miscellaneous	786	1,266	(5)	2,429	4,476	(934)	537	(397)	4,079
Total Expenses	\$ 2,304,000	\$ 2,227,027	\$ 710,838	\$ 3,206,811	\$ 8,448,676	\$ 969,127	\$ 3,267,668	\$ 4,236,795	\$ 12,685,471

FOOD ALLERGY RESEARCH & EDUCATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2013 (AS RESTATED)

	Program Services				Supporting Services			Total Expenses	
	Research	Education	Advocacy	Awareness	Total Program Services	General and Administrative	Fundraising		Total Supporting Services
Salaries	\$ 497,112	\$ 456,505	\$ 434,995	\$ 1,752,958	\$ 3,141,570	\$ 390,169	\$ 1,146,479	\$ 1,536,648	\$ 4,678,218
Payroll Taxes	29,246	34,619	30,851	128,521	223,237	24,951	78,769	103,720	326,957
Employee Benefits	30,917	59,275	49,503	173,629	313,324	44,570	88,145	132,715	446,039
Retirement	9,814	4,544	6,998	16,812	38,168	2,952	16,089	19,041	57,209
Total Salaries and Related Costs	567,089	554,943	522,347	2,071,920	3,716,299	462,642	1,329,482	1,792,124	5,508,423
Grant Expenses	2,115,995	36,727	-	-	2,152,722	-	-	-	2,152,722
Cost of Goods Sold	-	37,063	-	-	37,063	-	-	-	37,063
Event Expenses	165,243	49,805	595	83,537	299,180	2,781	1,064,205	1,066,986	1,366,166
Mail Shop Fees	11	10	18,190	35,634	53,845	40	1,021	1,061	54,906
Professional Fees	160,206	228,371	342,782	268,958	1,000,317	87,471	277,115	364,586	1,364,903
Office Expenses	11,418	250,315	54,159	238,231	554,123	36,676	281,813	318,489	872,612
Occupancy Expenses	27,316	25,066	20,453	143,532	216,367	89,614	103,335	192,949	409,316
Travel and Entertainment	38,740	100,757	9,585	60,408	209,490	16,276	153,004	169,280	378,770
Advertising and Promotion	263	63,900	197	402,078	466,438	922	31,438	32,360	498,798
Information Technology	35,062	37,132	34,474	249,090	355,758	120,367	136,675	257,042	612,800
Insurance	3,915	3,596	2,934	30,608	41,053	13,714	23,212	36,926	77,979
Depreciation and Amortization	3,438	3,158	2,576	10,785	19,957	12,043	9,702	21,745	41,702
Interest Expense and Credit Card and Bank Fees	1,172	922	691	166,284	169,069	3,228	66,833	70,061	239,130
Donated Goods	-	-	-	433,461	433,461	-	96,011	96,011	529,472
Miscellaneous	409	2,454	126	3,248	6,237	637	12,965	13,602	19,839
Total Expenses	\$ 3,130,277	\$ 1,394,219	\$ 1,009,109	\$ 4,197,774	\$ 9,731,379	\$ 846,411	\$ 3,586,811	\$ 4,433,222	\$ 14,164,601

FOOD ALLERGY RESEARCH & EDUCATION, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2014	2013 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,711,863)	\$ 2,512,792
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	42,033	41,702
Interest Earned on Converted Note Receivable	-	(3,236)
Discount on Pledges Receivable	(43,669)	14,742
Decrease in Discount on Grants Payable	17,133	24,851
Allowance for Uncollectible Pledges	(11,079)	11,079
Deferred Rent	-	66,476
Equity in Loss of Aimmune Therapeutics, Inc.	2,697,712	1,342,793
Gain on Issuance of Aimmune Therapeutics, Inc. Stock	(25,295)	(940,554)
Change In:		
Accounts Receivable	212,582	(218,360)
Pledges Receivable	(1,826,067)	(54,491)
Inventory	2,205	7,744
Prepaid Expenses and Other Assets	(215,074)	223,979
Deposits	(19,116)	(2,869)
Accounts Payable and Accrued Expenses	(564,142)	837,153
Grants Payable	(2,368,575)	(1,723,916)
Deferred Rent	(2,328)	-
Deferred Revenue	1,949	1,500
	(3,813,594)	2,141,385
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemptions of Certificates of Deposit	-	419,386
Purchases of Property and Equipment	(4,867)	(19,643)
Investment in Aimmune Therapeutics, Inc. Stock	-	(2,600,000)
	(4,867)	(2,200,257)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,818,461)	(58,872)
CASH AND CASH EQUIVALENTS, Beginning of Year	9,332,593	9,391,465
CASH AND CASH EQUIVALENTS, End of Year	\$ 5,514,132	\$ 9,332,593
SUPPLEMENTAL NON-CASH INVESTING ACTIVITIES		
Carrying Amount of Note Receivable Converted into Investment in Aimmune Therapeutics, Inc.	\$ -	\$ 625,161

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

Food Allergy Research & Education, Inc. (FARE) is the nation's leading organization working on behalf of the 15 million Americans who have food allergy, including all those at risk for life-threatening anaphylaxis. FARE is the most trusted source of information, programs and resources related to food allergy and anaphylaxis and the world's largest private source of funding for food allergy research.

Effective October 25, 2012, Food Allergy Initiative (FAI), a tax exempt 501(c)(3) organization incorporated under the laws of New York, merged with the Food Allergy & Anaphylaxis Network (FAAN), an unrelated tax-exempt 501(c)(3) organization incorporated under the laws of the Commonwealth of Virginia. The organization name was changed to Food Allergy Research & Education, Inc. The primary reason for the merger was to improve the efficiency and effectiveness of communicating the mission of the two organizations through focused funding research to find a cure, advocate for individuals with food allergies, increase awareness about the severity and growing prevalence of food allergies, and educate the public and other key stakeholders about the disease and the urgent need for a cure.

Basis of Accounting

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

Use of 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, FARE considers all cash, checking, savings and money market funds to be cash equivalents.

Accounts Receivable

FARE records accounts receivable, 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 accounts receivable as of December 31, 2014 and 2013 to be fully collectible.

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable represent unconditional promises to give cash to FARE. Unconditional promises to give that are expected to be collected within one year are reflected as current pledges receivable and are recorded at their net realizable values in the period in which FARE is notified by the grantor or donor of his or her commitment to make a contribution. Unconditional promises to give that are expected to be collected in future years are reflected as long-term pledges and are recorded at the net present value of their expected future cash flows using a risk-adjusted discount rate. Amortization of the discount on long-term pledges receivable is reflected as unrestricted contribution revenue. Conditional promises to give are recognized when conditions upon which they depend are substantially met. The need for an allowance is determined based on a review of the estimated collectability of the specific accounts, 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 account, or a portion thereof, to be uncollectible. The allowance for doubtful accounts at December 31, 2014 and 2013 was \$0 and \$11,079, 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 goods sold under education in program services in the statements of activities and change in net assets and statements of functional expenses.

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 \$5,000 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 the straight-line method over useful lives of between five to 10 years. Software is amortized on the straight-line basis over a useful life of three to five years. Leasehold improvements are amortized over the remaining non-cancelable lease term when the improvements are placed in service.

Investment in Aimmune Therapeutics, Inc. (formerly known as Allergen Research Corporation (ARC))

In December 2011, FARE acquired an ownership interest in the Allergen Research Corporation (effective May 2015, ARC changed its name to Aimmune Therapeutics, Inc. (ATI)). FARE uses the equity method to account for this investment in conformity with generally accepted accounting principles. Equity in earnings and (losses) of ATI and gains and (losses) on the issuance of ATI stock that dilute FARE's ownership interest increase and decrease the investment in ATI, respectively. Dividends received decrease the investment in ATI. The recognition of losses under the equity method will be suspended when FARE's investment in ATI, including the carrying amount of the note receivable from ATI and the related accrued interest, is reduced to zero. Application of the equity method will resume only after FARE's share of ATI's net income equals the net losses not recognized during the period the equity method was suspended.

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants Payable

Grants payable are accrued for financial statement purposes upon the approval by the Board of Directors and execution of an agreement by both parties, subject to conditions being met. The Board of Directors approves grants that are recommended after review and approval by a Research Advisory Board. Inactive grants are closed out and not paid to grantees based on review by the Research Advisory Board and approval by the Board of Directors resulting in a reduction in grant expense and research expense in the statements of activities and change in net assets.

Net Assets

FARE's net assets are classified into two categories: unrestricted and temporarily restricted. The Board established a board-designated fund for unfunded grant commitments at December 31, 2014 totaling \$685,320. The Board had established a board-designated fund for operating reserves at December 31, 2013 totaling \$500,000. The Board removed the designation on these net assets during 2014. 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. FARE has no permanently restricted net assets.

Revenue Recognition

Contributions are recorded as revenue in the year notification is received from the donor. Contributions are recognized as unrestricted support in the absence of any donor-imposed restrictions, or if restrictions exist, only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. All gifts contributed to FARE are recorded at fair value at the time of receipt. Membership contributions are recognized by FARE in the period to which it is received as unrestricted or temporarily restricted revenue based on the period of membership. Multi-year and lifetime memberships are recorded as temporarily restricted net assets for time restrictions and are released from restriction as time passes.

Sponsorships for special events are recognized as temporarily restricted revenue upon receipt and are released to unrestricted net assets once the event takes place. Ticket sales for special events received in advance are recorded as deferred revenue and recognized as income when the related event occurs. Special event revenue is recorded at the gross amount in the statements of activities and change in net assets. The related expenses are reflected in fundraising expenses on the statements of functional expenses.

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

FARE is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. FARE has not been classified as a private foundation by the Internal Revenue Service (IRS). FARE did not have any unrelated business income for the years ended December 31, 2014 and 2013. FARE believes it has appropriate support for any tax position taken and, as such, does not have any uncertain tax positions that are material to the financial statements. FARE recognizes interest expense and penalties on income taxes related to uncertain tax positions in general and administrative expenses on the statements of activities and change in net assets, and accounts payable and accrued expenses in the statements of financial position. There is no provision in these financial statements for penalties and interest on income taxes related to uncertain tax positions for the years ended December 31, 2014 and 2013. Tax years prior to 2011 are no longer subject to examination by the IRS or the tax jurisdictions of the state of New York and the Commonwealth of Virginia.

Functional Expense Allocations

FARE's expenses have been reported based on natural account classification in the statements of functional expenses and allocated on a functional basis to program services, 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 services, general and administrative, and fundraising activities is reported on the statements of activities and change in net assets.

Advertising Expense

FARE expenses all advertising expenses as incurred. FARE incurred \$22,511 and \$13,210 in advertising expense for the years ended December 31, 2014 and 2013, respectively.

Reclassification

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Subsequent Events

FARE has evaluated events and transactions for potential recognition or disclosure through October 2, 2015, the date the financial statements were available to be issued.

NOTE 2 – RESTRICTED CASH

Cash and cash equivalents include restricted cash of \$74,224 and \$83,724 at December 31, 2014 and 2013, respectively, which represents the proceeds on raffle tickets sold in the State of New York.

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 3 – CONCENTRATIONS

FARE maintains cash balances at financial institutions and, at times, these balances may exceed the \$250,000 amount insured by the Federal Deposit Insurance Corporation (FDIC). The amount of uninsured deposits at December 31, 2014 was approximately \$4,800,000.

At December 31, 2014 and 2013, approximately 81 percent and 71 percent, respectively, of the pledges receivable were from two donors.

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable have been discounted using a risk adjusted rate of 3.25 percent to record the present value of the pledges to be received, for each of the years ended December 31, 2014 and 2013. Pledges receivable consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Pledges Receivable – Less than One Year	\$ 3,376,252	\$ 972,980
Pledges Receivable – One to Five Years	180,702	757,907
Less: Allowance for Doubtful Accounts	-	11,079
Total Pledges Receivable	<u>3,556,954</u>	<u>1,719,808</u>
Less: Discount to Present Value	8,565	52,234
Net Pledges Receivable	<u>3,548,389</u>	<u>1,667,574</u>
Less: Current Portion	<u>3,376,252</u>	<u>972,980</u>
Long-Term Pledges Receivable	<u>\$ 172,137</u>	<u>\$ 694,594</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Office Furniture and Equipment	\$ 80,081	\$ 177,770
Computer Equipment	68,567	112,171
Software	39,380	40,599
Leasehold Improvements	16,547	16,547
	<u>204,575</u>	<u>347,087</u>
Accumulated Depreciation and Amortization	<u>(115,604)</u>	<u>(220,950)</u>
	<u>\$ 88,971</u>	<u>\$ 126,137</u>

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

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NOTE 6 – INVESTMENT IN AIMMUNE THERAPEUTICS, INC.

FARE has an investment in Aimmune Therapeutics, Inc. (formerly known as Allergen Research Corporation or ARC), which is accounted for under the equity method of accounting. Aimmune Therapeutics, Inc.'s (ATI's) mission is to improve the lives of children and young adults with food allergies by developing and commercializing safe, pharmaceutical-grade food allergens for oral immunotherapy. Funding for the ATI investment has been provided by third-party donors who made gifts to FARE that were restricted specifically for the purpose of FARE making the investments in ATI that are detailed below.

In December 2011, FARE (through its predecessor organization FAI) acquired a 41.67 percent interest in ATI's common stock for \$500,000. On June 15, 2012, FARE issued ATI an unsecured convertible promissory note in the amount of \$750,000. The note included 3 percent simple interest accrued on the unpaid principal. The note contained a conversion feature to purchase Series A preferred stock at a purchase price of 85 percent of the share price offered to investors. At December 31, 2012, the excess equity in ATI losses over FARE's common stock investment in ATI of \$139,325 was recognized by FARE and reduced the carrying amount of the convertible promissory note. FARE has no further obligation or commitments to provide additional support to ATI.

On February 8, 2013, FARE converted its promissory note and related accrued interest of \$14,486 into 527,232 shares of Series A preferred stock and purchased an additional 1,029,412 shares of Series A preferred stock of ATI at \$1.70 per share or \$1,750,000. On February 20, 2013, FARE purchased an additional 500,000 shares of Series A preferred stock of ATI at \$1.70 per share or \$850,000. There was an additional issuance of Series A preferred stock in April 2013 to other third-party investors, which resulted in a dilution of FARE's ownership interest in ATI.

The Series A preferred stock is not mandatorily redeemable by ATI, has an 8 percent non-cumulative dividend, is convertible into common stock on a one-for-one basis and has a liquidation preference of \$1.70 per share. No dividends have been declared or are expected to be declared by ATI. The Series A preferred stock votes as a single class with the ATI common stock. FARE can appoint one of five members to the ATI Board of Directors at December 31, 2014.

At December 31, 2014 and 2013, FARE owned 2,056,644 shares of Series A preferred stock of ATI representing approximately 20.42 percent of the 10,071,352 shares of Series A preferred stock issued by ATI. In addition, at December 31, 2014 and 2013, FARE owned 925,926 shares of common stock representing approximately 28.68 and 41.67 percent of the 3,228,740 and 2,222,222 shares of common stock issued by ATI, respectively. FARE's ownership of common stock and Series A preferred stock represents approximately a 22.42 and 24.26 percent interest in the outstanding shares of ATI at December 31, 2014 and 2013, respectively.

FARE recognized its equity in loss of ATI of \$ \$2,697,712 and \$1,342,793 related to its proportionate share ATI's losses incurred for the years ended December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, FARE recognized a gain on the issuance of additional shares of Series A preferred stock by ATI to other third-party investors in the amount of \$25,295 and \$940,554, respectively. The issuance of shares by ATI requires FARE to treat the stock issuance as if it had sold a proportionate share of its investment and recognize a gain or loss for the difference in its proportionate share of the underlying equity in ATI and the carrying amount of its investment. FARE's investment in ATI was \$150,505 and \$2,822,922 at December 31, 2014 and 2013, respectively.

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 6 – INVESTMENT IN AIMMUNE THERAPEUTICS, INC. (Continued)

At December 31, 2014, ATI's audited assets, liabilities and equity totaled approximately \$2,531,000, \$1,860,000 and \$671,000, respectively. ATI's net loss for the year ended December 31, 2014 totaled approximately \$(11,120,000). At December 31, 2013, ATI's audited assets, liabilities and equity totaled approximately \$12,156,000, \$519,000 and \$11,637,000, respectively. ATI's net loss for the year ended December 31, 2013 totaled approximately \$(4,825,000).

NOTE 7 – GRANTS PAYABLE

An independent medical board reviews all grant proposals and recommends which proposals to fund. Grants payable are accrued upon execution of a signed agreement. During the years ended December 31, 2014 and 2013, FARE awarded grants to universities and medical centers totaling \$1,691,949 and \$2,041,143, respectively. Grants payable have been discounted using a risk-adjusted rate of 3.25 percent to record the present value of grants to be paid.

Grants payable consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Grants Payable – Less than One Year	\$ 1,783,273	\$ 3,789,909
Grants Payable – One to Five Years	776,092	1,138,031
Total Grants Payable	<u>2,559,365</u>	<u>4,927,940</u>
Less: Discounts to Present Value	<u>30,115</u>	<u>47,248</u>
Net Grants Payable	<u>2,529,250</u>	<u>4,880,692</u>
Less: Current Portion	<u>1,783,273</u>	<u>3,789,909</u>
Long-Term Grants Payable	<u>\$ 745,977</u>	<u>\$ 1,090,783</u>

During 2014, grantees were notified that grants in the amount of \$537,009 would be closed out and not paid due to inactivity on their respective grants. Such amounts were recorded as credits to grant expense and research expenses on the statements of activities and change in net assets.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Educational Restrictions	\$ 1,034,979	\$ 2,211,535
Research Restrictions	2,811,831	2,121,145
Time Restrictions	<u>1,103,751</u>	<u>221,347</u>
	<u>\$ 4,950,561</u>	<u>\$ 4,554,027</u>

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 9 – RETIREMENT PLANS

FARE has 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 three months of service. Effective January 1, 2014, the employee must be 18 years old and are eligible for the match immediately upon hiring.

FARE makes an employer contribution to the plan on a semi-monthly basis. For each of the years ended December 31, 2014 and 2013, the amount of the employer contributions was discretionary and amounted to 3 percent of eligible employees' gross wages. During the year ended December 31, 2014 and 2013, FARE contributed \$137,582 and \$51,331, respectively.

FARE has a Section 457(b) Deferred Compensation Plan (the 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 FARE. The Plan was established to comply with the requirements of Section 457(b) of the Internal Revenue Code. Participants are able to defer the maximum amount allowed under Code Section 457(b) (\$17,500 for 2014 and \$17,000 for 2013). Plan assets consist of mutual funds recorded at fair value based on quoted market prices in active markets (Level 1). Employer contributions become immediately vested to employees. FARE made no discretionary contributions for the years ended December 31, 2014 and 2013. FARE has recorded an asset and liability related to the Plan of \$0 and \$860 at December 31, 2014 and 2013, respectively, included in prepaid expenses and other assets and accounts payable and accrued expenses on the statements of financial position.

NOTE 10 – ALLOCATION OF JOINT COSTS

For the years ended December 31, 2014 and 2013, FARE 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). For the years ended December 31, joint costs were allocated as follows:

	<u>2014</u>	<u>2013</u>
Fundraising	\$ 553,001	\$ 714,731
Program – Awareness	<u>2,080,340</u>	<u>2,144,192</u>
	<u>\$ 2,633,341</u>	<u>\$ 2,858,923</u>

NOTE 11 – COMMITMENTS

Leases

FARE assumed a 10-year lease for office space in New York City, New York from FAI upon the date of the merger date. The lease became effective on September 1, 2010, and provided five months' free rent. Base monthly rental payments at inception were \$10,460, and increase approximately 2 percent per year. FARE also pays its share of operating expenses and real estate taxes over the base year. The lease can be terminated after 60 months with six months' prior written notice and a payment of a predetermined termination fee.

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 11 – COMMITMENTS (Continued)

Leases (Continued)

FARE assumed FAAN's month-to-month lease for office space in Fairfax, Virginia for \$15,057 per month through February 2013. FARE also assumed a 64-month lease FAAN had signed in October 2012 to be occupied by FARE with a commencement date of February 2013. Base monthly rental payments are \$14,281 and increase annually by 2.5 percent. FARE is also responsible for its share of operating expenses. The lease includes a rent abatement of 50 percent for the first eight months of the lease, and an option to renew for five years. During July 2014, FARE signed an amendment to this lease for additional space commencing October 1, 2014. Base monthly rental payments for the additional space are \$2,579 and increase annually by 2.5 percent.

During 2013, FARE entered into additional leases for its regional offices. The leases expire at various dates through December 31, 2018. The leases contain escalation clauses over the lease term, and FARE is responsible for its share of operating expenses and real estate taxes.

Rent expense, including lease incentives such as free rent, is recognized on a straight-line basis over the lease terms. Occupancy expense, which includes property taxes, storage and other expenses, for the years ended December 31, 2014 and 2013 was \$469,404 and \$409,316, respectively.

Future minimum lease payments under these leases are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 453,612
2016	434,108
2017	417,213
2018	277,507
2019	155,264
Thereafter	<u>78,400</u>
	<u>\$ 1,816,104</u>

Employment Agreements

FARE had an employment agreement with its CEO, effective through March 31, 2015. The agreement stated that if he was terminated other than for cause, FARE would provide six months' salary plus accrued rights, as defined within the agreement, at his current salary level. In August 2014, the CEO and FARE's Board of Directors mutually agreed that the CEO would separate from FARE effective August 30, 2014, and executed a separation agreement with terms consistent with the CEO's employment agreement.

FARE also has an employment agreement with its Senior Vice President of Research and Operations, effective through December 31, 2014, which automatically renews for one year periods unless notification is given by FARE in writing of its intention not to renew the agreement. The agreement states that if she is terminated other than for cause, FARE shall provide 16 weeks of salary plus accrued rights, as defined within the agreement, at her current salary level.

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 11 – COMMITMENTS (Continued)

Meeting Commitments

FARE has contracts with venues for events to be held during 2015. If a contract is cancelled prior to the date of the conference, FARE 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, FARE's ultimate liability under these contracts cannot be determined; however, the estimated costs range from approximately \$0 to \$209,000 depending on the nature, timing and number of event cancellations. As of December 31, 2014, there were no plans to cancel any future events.

NOTE 12 – DONATED GOODS AND SERVICES

Donated goods and services are recorded at their estimated fair values at the date of donation. During the years ended December 31, 2014 and 2013, FARE received donated goods related to its walk-a-thons and special events totaling \$74,518 and \$177,239, and public service announcements totaling \$0 and \$352,233, respectively. In addition, during 2014, FARE received donated stock with a fair value of \$125,970 that was sold for proceeds of \$125,890. During 2013, FARE received donated stock with a fair value of \$1,125,761 that was sold for proceeds of \$1,121,871. Securities are converted to cash immediately upon receipt and are treated as operating cash flows.

NOTE 13 – RESTATEMENT OF FINANCIAL STATEMENTS

As a result of a correction in FARE's ownership percentage of Aimmune Therapeutics, Inc. from 20.62 percent to 24.26 percent during the year ended December 31, 2013, FARE's equity in Loss of Aimmune Therapeutics, Inc. and its share of Gain on Issuance of Aimmune Therapeutics, Inc. Stock increased and its Investment in Aimmune Therapeutics, Inc. increased. This resulted in an understatement of FARE's previously reported equity in loss of Aimmune Therapeutics, Inc. of \$202,970, an understatement of FARE's previously reported Gain on Issuance of Aimmune Therapeutics, Inc. Stock of \$583,866 and an understatement of FARE's investment in Aimmune Therapeutics, Inc. of \$380,896. Accordingly, FARE restated its results for the year ended December 31, 2013 as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Investment in Aimmune Therapeutics, Inc.	\$ 2,442,026	\$ 2,822,922
Net Assets – Unrestricted – Undesignated	2,837,330	3,218,226
Equity in Loss of Aimmune Therapeutics, Inc.	(1,139,823)	(1,342,793)
Gain on Issuance of Aimmune Therapeutics, Inc. Stock	356,688	940,554
Change in Net Assets – Unrestricted	1,870,730	2,251,626

FOOD ALLERGY RESEARCH & EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013 (AS RESTATED)

NOTE 14 – SUBSEQUENT EVENTS

In January and February 2015, Aimmune Therapeutics, Inc. (ATI) authorized 10,816,667 and issued 10,666,667 shares of Series B convertible preferred stock, \$0.0001 par value, original issue price of \$7.50 per share, for cash proceeds of \$66.9 million, net of \$12.9 million in repurchases of ATI's Series A convertible preferred stock and \$243,000 in offering costs. On January 20, 2015, FARE sold 1,028,322 of its Series A preferred stock for \$7.50 per share, totaling \$7,712,415, decreasing its ownership to 8.37 percent. Upon issuance of the Series B convertible preferred stock, FARE was no longer represented as a voting member of the Board of Directors. As a result of the above transactions and changes, FARE no longer exerts significant influence over ATI.

On July 30, 2015, the ATI stock split 1-for-1.317 of the ATI's common stock and convertible preferred stock. After the ATI stock split, FARE owned 1,219,444 shares of common stock.

On August 5, 2015, ATI's registration statement on Form S-1 relating to its IPO of common stock became effective. The IPO closed on August 11, 2015, at which time ATI issued 11,499,999 shares of its common stock at a price of \$16 per share. In addition, upon ATI's IPO, all ATI's outstanding shares of convertible preferred stock converted by their terms into approximately 25.1 million shares of common stock. As a result, the 1,028,322 shares of Series A preferred stock owned by FARE were converted into 1,354,300 shares of common stock on the date of ATI's IPO. Subsequent to ATI's IPO, FARE had beneficial ownership of 2,573,744 shares of common stock or 6.32 percent of ATI's outstanding common stock.

FARE had beneficial ownership of 2,573,744 shares of common stock at the date of ATI's IPO which are subject to demand registration rights, piggyback registration rights, and Form S-3 registration rights under ATI's Amended and Restated Investor Rights Agreement (the Agreement). As a result, FARE, along with certain other common shareholders, have the right to require ATI to register their shares under the Securities Act so that those shares may be publicly resold, or to include their shares in any registration statement ATI files as described in the Agreement under demand registration rights, piggyback registration rights and Form S-3 registration rights. ATI will pay the registration expenses of the holders of the shares registered pursuant to the demand, piggyback and Form S-3 registration rights, including the expenses in an amount not to exceed \$25,000 of one counsel for the selling holders. The demand, piggyback and Form S-3 registration rights will expire, with respect to any particular stockholder, upon the earlier of five years after the consummation of this offering or when that stockholder can sell all of its shares under Rule 144 of the Securities Act during any three-month period.

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