

**Audited Financial Statements**

**FOOD ALLERGY RESEARCH & EDUCATION, INC.**

*December 31, 2015*

# Food Allergy Research & Education, Inc.

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# Independent Auditor's Report

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

We have audited the accompanying financial statements of Food Allergy Research & Education, Inc. (FARE), which comprise the statements of financial position as of December 31, 2015, and the related statements of activities, functional expense, and cash flows for the year then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 FARE'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 FARE'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, the financial statements referred to above present fairly, in all material respects, the financial position of Food Allergy Research & Education, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Prior Period Financial Statements

The financial statements as of and for the year ended December 31, 2014, were audited by other auditors whose report thereon, dated October 2, 2015, expressed an unmodified opinion on those statements.

Washington, DC  
May 24, 2016

# Food Allergy Research & Education, Inc.

## Statements of Financial Position

<b>December 31,</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 14,457,217	\$ 5,514,132
Investment in Aimmune Therapeutics, Inc.	47,485,577	150,505
Accounts receivable	30,630	105,820
Pledges receivable, current portion	1,218,962	3,376,252
Inventory	24,230	45,538
Prepaid expense and other assets	95,778	365,663
<b>Total current assets</b>	<b>63,312,394</b>	<b>9,557,910</b>
Long-term assets		
Property and equipment	97,984	88,971
Pledges receivable, net of current portion	91,407	172,137
Deposits	29,555	43,143
<b>Total assets</b>	<b>\$ 63,531,340</b>	<b>\$ 9,862,161</b>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 708,490	\$ 633,592
Grants payable, current portion	2,989,568	1,783,273
Deferred rent, current portion	26,357	13,504
Deferred revenue	-	3,449
<b>Total current liabilities</b>	<b>3,724,415</b>	<b>2,433,818</b>
Long-term liabilities		
Grants payable, net of current portion	2,614,805	745,977
Deferred rent, net of current portion	94,806	121,976
<b>Total liabilities</b>	<b>6,434,026</b>	<b>3,301,771</b>
Net assets		
Unrestricted		
Undesignated	52,074,848	924,509
Designated	228,040	685,320
<b>Total unrestricted net assets</b>	<b>52,302,888</b>	<b>1,609,829</b>
Temporarily restricted	4,794,426	4,950,561
<b>Total net assets</b>	<b>57,097,314</b>	<b>6,560,390</b>
<b>Total liabilities and net assets</b>	<b>\$ 63,531,340</b>	<b>\$ 9,862,161</b>

See notes to the financial statements.

# Food Allergy Research & Education, Inc.

## Statements of Activities

<i>Year Ended December 31,</i>	2015	2014
<b>Unrestricted activities</b>		
Revenue and support		
Contributions	\$ 5,104,793	\$ 4,771,265
Special events	5,016,914	5,437,443
Federal grants	168,769	161,582
Product sales	61,013	41,946
Advertising income	44,320	32,250
Educational conference	29,630	34,668
Rental and other income	25,651	1,778
Interest and dividends	14,586	7,932
	<b>10,465,676</b>	10,488,864
Net assets released from restriction	<b>2,457,672</b>	2,760,627
Total unrestricted revenue and support	<b>12,923,348</b>	13,249,491
Expense		
Program services		
Research	8,258,609	2,304,000
Education & Advocacy	2,470,329	2,937,865
Awareness	2,333,560	3,206,811
Total program services	<b>13,062,498</b>	8,448,676
Supporting services		
Fundraising	3,423,550	3,267,668
General and administrative	791,728	969,127
Total supporting services	<b>4,215,278</b>	4,236,795
Total expense	<b>17,277,776</b>	12,685,471
Change in unrestricted net assets from operations	<b>(4,354,428)</b>	564,020
Net gain on investment in Aimmune Therapeutics, Inc.	<b>55,047,487</b>	-
Equity in loss of Aimmune Therapeutics, Inc.	-	(2,697,712)
Gain on issuance of stock for Aimmune Therapeutics, Inc.	-	25,295
Change in unrestricted net assets	<b>50,693,059</b>	(2,108,397)
<b>Temporarily restricted activities</b>		
Contributions	2,301,537	3,157,161
Net assets released from restriction	<b>(2,457,672)</b>	(2,760,627)
Change in temporarily restricted net assets	<b>(156,135)</b>	396,534
<b>Change in net assets</b>	<b>50,536,924</b>	(1,711,863)
Net assets, beginning of year	<b>6,560,390</b>	8,272,253
<b>Net assets, end of year</b>	<b>\$ 57,097,314</b>	\$ 6,560,390

See notes to the financial statements.

# Food Allergy Research & Education, Inc.

## Statement of Functional Expense Year Ended December 31, 2015

	Program Services				Supporting Services			Total
	Research	Education & Advocacy		Total	Fundraising	General and Administrative		
		Awareness				Total		
Salaries	\$ 831,944	\$ 1,133,154	\$ 1,276,831	\$ 3,241,929	\$ 1,145,505	\$ 403,505	\$ 1,549,010	\$ 4,790,939
Employee benefits	41,588	73,662	135,895	251,145	105,724	36,072	141,796	392,941
Payroll taxes	44,305	78,745	101,527	224,577	83,254	29,995	113,249	337,826
Retirement	24,573	30,812	35,868	91,253	33,836	11,522	45,358	136,611
	942,410	1,316,373	1,550,121	3,808,904	1,368,319	481,094	1,849,413	5,658,317
Grants	6,987,023	314,457	-	7,301,480	-	-	-	7,301,480
Special events	119,734	132,935	68,577	321,246	850,583	553	851,136	1,172,382
Professional fees	37,809	336,908	145,910	520,627	325,167	59,448	384,615	905,242
Occupancy	49,068	65,714	136,851	251,633	116,759	101,696	218,455	470,088
Office expense	8,675	51,919	128,120	188,714	256,788	17,739	274,527	463,241
Travel and entertainment	62,760	141,254	69,348	273,362	74,799	29,614	104,413	377,775
Information technology	33,873	64,006	103,303	201,182	108,285	68,216	176,501	377,683
Bank fees	1,218	13,463	96,199	110,880	87,980	2,626	90,606	201,486
Donated goods	-	-	-	-	104,178	-	104,178	104,178
Insurance	8,153	10,794	11,567	30,514	12,481	17,580	30,061	60,575
Advertising and promotion	1,500	-	6,215	7,715	46,933	-	46,933	54,648
Depreciation and amortization	5,914	7,830	8,391	22,135	9,054	12,753	21,807	43,942
Mail shop fees	-	301	7,609	7,910	34,565	-	34,565	42,475
Costs of goods sold	-	13,806	-	13,806	25,041	-	25,041	38,847
Other expense	472	569	1,349	2,390	2,618	409	3,027	5,417
<b>Total expense</b>	<b>\$ 8,258,609</b>	<b>\$ 2,470,329</b>	<b>\$ 2,333,560</b>	<b>\$ 13,062,498</b>	<b>\$ 3,423,550</b>	<b>\$ 791,728</b>	<b>\$ 4,215,278</b>	<b>\$ 17,277,776</b>

See notes to the financial statements.

# Food Allergy Research & Education, Inc.

## Statement of Functional Expense

Year Ended December 31, 2014

	Program Services				Supporting Services			Total
	Research	Education & Advocacy		Total	Fundraising	General and Administrative		
		Awareness				Total		
Salaries	\$ 624,328	\$ 1,041,464	\$ 1,807,245	\$ 3,473,037	\$ 1,159,557	\$ 503,733	\$ 1,663,290	\$ 5,136,327
Employee benefits	49,137	103,309	155,259	307,705	80,788	36,805	117,593	425,298
Payroll taxes	30,006	76,545	139,640	246,191	84,023	32,041	116,064	362,255
Retirement	16,434	29,141	49,748	95,323	31,146	10,995	42,141	137,464
	719,905	1,250,459	2,151,892	4,122,256	1,355,514	583,574	1,939,088	6,061,344
Grants	1,171,773	234,065	-	1,405,838	655	-	655	1,406,493
Special events	17,204	292,285	71,159	380,648	821,931	887	822,818	1,203,466
Professional fees	252,895	527,349	159,720	939,964	248,029	93,103	341,132	1,281,096
Occupancy	32,631	51,822	163,726	248,179	110,884	110,341	221,225	469,404
Office expense	10,048	266,922	200,037	477,007	249,747	27,442	277,189	754,196
Travel and entertainment	41,819	181,298	141,569	364,686	112,323	19,726	132,049	496,735
Information technology	33,522	72,491	161,745	267,758	115,476	107,762	223,238	490,996
Bank fees	899	13,698	116,497	131,094	81,311	2,976	84,287	215,381
Donated goods	-	-	-	-	74,518	-	74,518	74,518
Insurance	2,910	4,622	7,568	15,100	15,810	9,840	25,650	40,750
Advertising and promotion	15,713	-	8,195	23,908	47,879	240	48,119	72,027
Depreciation and amortization	3,895	6,187	10,131	20,213	8,648	13,172	21,820	42,033
Mail shop fees	-	12,143	12,143	24,286	24,206	-	24,206	48,492
Costs of goods sold	-	23,263	-	23,263	-	-	-	23,263
Bad debt	-	-	-	-	200	64	264	264
Other expense	786	1,261	2,429	4,476	537	-	537	5,013
<b>Total expense</b>	<b>\$ 2,304,000</b>	<b>\$ 2,937,865</b>	<b>\$ 3,206,811</b>	<b>\$ 8,448,676</b>	<b>\$ 3,267,668</b>	<b>\$ 969,127</b>	<b>\$ 4,236,795</b>	<b>\$ 12,685,471</b>

See notes to the financial statements.

# Food Allergy Research & Education, Inc.

## Statements of Cash Flows

<b>Year Ended December 31,</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 50,536,924	\$ (1,711,863)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net gain on investment in Aimmune Therapeutics, Inc.	(55,047,487)	-
Equity in loss of Aimmune Therapeutics, Inc.	-	2,697,712
Gain on issuance of stock for Aimmune Therapeutics, Inc.	-	(25,295)
Change in discount on pledges receivable	5,594	(43,669)
Change in allowance for uncollectible pledges	-	(11,079)
Depreciation and amortization	43,942	42,033
Change in discount on grants payable	151,341	17,133
Changes in assets and liabilities		
Accounts receivable	75,190	212,582
Pledges receivable	2,232,426	(1,826,067)
Inventory	21,308	2,205
Prepaid expense and other assets	269,885	(215,074)
Deposits	13,588	(19,116)
Accounts payable and accrued expenses	74,898	(564,142)
Grants payable	2,923,782	(2,368,575)
Deferred rent	(14,317)	(2,328)
Deferred revenue	(3,449)	1,949
Total adjustments	(49,253,299)	(2,101,731)
Net cash provided by (used in) operating activities	1,283,625	(3,813,594)
<b>Cash flows from investing activities</b>		
Proceeds from sale of investment in Aimmune Therapeutics, Inc.	7,712,415	-
Purchases of property and equipment	(52,955)	(4,867)
Net cash provided by (used in) investing activities	7,659,460	(4,867)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>8,943,085</b>	<b>(3,818,461)</b>
Cash and cash equivalents, beginning of year	5,514,132	9,332,593
<b>Cash and cash equivalents, end of year</b>	<b>\$ 14,457,217</b>	<b>\$ 5,514,132</b>

See notes to the financial statements.



# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of accounting: FARE prepares its financial statements on the accrual basis of accounting. Accordingly, revenue, other than contributions, is recognized when earned and expense when the obligation is incurred.

Use of estimates: The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Income tax status: FARE is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and has not been classified as a private foundation by the Internal Revenue Service. FARE is subject to tax on its net unrelated business income activities such as advertising.

Cash and cash equivalents: For financial statement purposes, FARE classifies checking, savings, demand deposits, and money market accounts as cash equivalents.

Accounts receivable: Accounts receivable primarily consists of federal grants receivable. Management periodically reviews the status of all receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of and relationship with the grantor or customer and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are included in the allowance for doubtful accounts receivable. However, management believes that accounts receivable are fully collectible at December 31, 2015 and 2014.

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 goods sold is included in education expense in the financial statements.

Contributions: Contributions are recognized at fair value when unconditionally promised to, or received by FARE. Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor restrictions. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when the time restriction expires or when the purpose restriction is satisfied.

Membership dues are considered to be contributions and, as such, membership dues are recognized when received as temporarily restricted revenue with a time restriction which is released from restriction using a straight line amortization over the applicable period of the membership. FARE has one year, five year and life time memberships. Life time memberships are released based on a five year period.

In-kind contributions of goods are recorded at their estimated fair value on the date of donation. FARE received donated goods related to its special events with a fair value of \$104,178 and \$74,518, during the years ended December 31, 2015 and 2014, respectively. Furthermore, during the year ended December 31, 2014, FARE received donated stock that had a fair value of \$1,125,761 which was sold for proceeds of \$1,121,871. Donated securities are converted to cash immediately upon receipt and, therefore, such cash is reported within cash flows from operating activities.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Special events: FARE's special events primarily consist of various fundraising galas. Sponsorship revenue related to these special events is recognized and classified as temporarily restricted contribution revenue which is released from restriction in the period in which the related special event occurs. Special event revenue is reported gross in the statements of activities and special event expense is reported in fundraising expense in the statements of activities and functional expense.

Costs of direct benefits to donors: Costs of direct benefits to donors include (1) the venue, entertainment, and refreshments in the case of a special event; (2) the refreshments, t-shirts, or other items provided to participants in a walk-a-thon; or (3) the items raffled in the case of a raffle. Costs of direct benefits to donors are classified within the appropriate program or supporting services functional expense categories.

Program services: Program services descriptions are as follows:

Awareness: Expenses for Awareness activities in support of FARE's mission encompass a wide range of efforts, including but not limited to: executing national awareness campaigns to raise the profile of food allergy; coordinating more than 50 FARE Walk for Food Allergy events across the country (requiring printing and postage costs of marketing materials, travel associated with walk events, digital support for event websites and email communications and securing of venues and related expenses); distributing external communications such as a bi-monthly e-newsletter and a quarterly research newsletter; maintenance and content writing for FARE's digital properties including its website and blog, which reached more than 3.5 million people in 2015; media outreach, marketing and promotion, monitoring services and other technology infrastructure support.

Education & Advocacy: Education and Advocacy expenses cover a broad range of activities in support of FARE's mission, including but not limited to: national educational conferences, printed and online educational materials, expenses in support of our Community Outreach Awards program and Leaders Summit programs, providing free educational information through its website (foodallergy.org) and blog, maintaining an ongoing monthly webinar series on a variety of topics related to food allergy management, printing/distributing key educational materials, FARE's college program efforts towards creating and training on best practices for identifying and serving the needs of students with food allergies in every aspect of student life; and our National Food Allergy Conference and Leaders' Summit, which brought together individuals and families managing food allergies, caregivers, school staff, and health care professionals, giving them an opportunity to learn about advances in food allergy research and advocacy, best practices and practical skills for living well with food allergies. FARE's advocacy efforts include both digital and live campaigns, trainings, materials, and other communications vehicles to educate and build awareness among relevant stakeholders of the severity of food allergies and appropriate policy accommodations. FARE also convenes food allergy experts, physicians, educators, policymakers, community leaders, patients/caregivers, and advocates to support various mission efforts.

In supporting these activities, FARE incurs a variety of expenses including printing and postage costs of education and advocacy materials, travel associated with trainings and other events, distribution costs for mailing of resources and materials in support of newly diagnosed patients or other educational events, digital support costs for advocacy tools, the SafeFARE website, college database development, conference call support, webinar hosting and maintenance, and securing of venues and related expenses for our conference activities); grant expenses in support of the Community Outreach and Leader's Summit programs, and other technology infrastructure support as programs require.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Research: FARE is committed to supporting food allergy research progress in a number of ways. The cornerstone of our efforts was the launch of the FARE Clinical Network ('FCN') in 2015 with 24 centers of excellence across the United States. The FCN sites are changing the face of food allergy research by raising the quality of care for food allergic patients nationwide, by reducing discrepancies in care among providers, and by making comprehensive care available for all patients with food allergies. FCN sites are helping parents, caregivers and patients identify centers that provide clinical and sub-specialty food allergy services of the highest quality and that are leaders in rapidly applying new evidence-based knowledge.

Importantly, FCN centers are accelerating drug development for food allergy by enhancing sites' infrastructure and capabilities to perform crucial late stage trials and providing the basis for a national food allergy patient registry and bio-repositories. The annual investment in the network was approximately \$2.3 million (partial year in 2015) as FARE supported part of the principal investigator's salary and the salary of a full time research coordinator.

FARE is also committed to markedly increasing the number of investigators in the field through its FARE Investigator in Food Allergy Award Program that was also launched in 2015. The Program is divided into two categories: New Investigator Awards and Mid-Career Awards. FARE awarded two grants in the former and three grants in the latter for a total commitment of up to \$2.55 million. FARE also supports established researchers through funding basic, clinical and epidemiological research at a number of sites across the country.

Funding for all these research programs are captured in the Grants line on the Statement of Functional Expenses.

Supporting services: Supporting services descriptions are as follows:

Fundraising: Fundraising activities includes FARE's efforts to solicit contributions from individuals, foundations, government agencies, and others. Expenses related to fundraising include costs related to maintaining donor lists; printing and postage costs for donor solicitations; conducting special events; travel associated with donor meetings and special events; technology infrastructure to support online donations and other fundraising activities; staff training; advertising costs for campaign promotion, and consulting services.

General and administrative: General and administrative activities include expenditures related to FARE's administrative, financial, and governance functions.

Functional expense allocation: The costs of providing various program and supporting services activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the program and supporting services benefited based on either employee effort (time spent) or direct costs (specific identification).

Measure of operations: FARE considers the investment activity related to Aimmune Therapeutics, Inc. to be non-operating items. Therefore, investment income and other related changes are not included in the change in unrestricted net assets from operations.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on previously reported net income. Amounts reported in the December 31, 2014 financial statements have been reclassified as follows:

	Previously Reported	Reclassification	Currently Reported
<b>Unrestricted activities</b>			
Revenue and support			
Contributions	\$ 4,845,211	\$ (73,946)	\$ 4,771,265
Special events	5,395,747	41,696	5,437,443
Federal grants	-	161,582	161,582
Product sales	-	41,946	41,946
Advertising income	-	32,250	32,250
Educational conference	196,250	(161,582)	34,668
Rental and other income	43,724	(41,946)	1,778
Interest and dividends	7,932	-	7,932
	<b>\$ 10,488,864</b>	<b>\$ -</b>	<b>\$ 10,488,864</b>
<b>Temporarily restricted activities</b>			
Contributions	\$ 3,115,465	\$ 41,696	\$ 3,157,161
Special events	41,696	(41,696)	-
	<b>\$ 3,157,161</b>	<b>\$ -</b>	<b>\$ 3,157,161</b>

### B. CONCENTRATIONS

Credit risk: FARE maintains demand deposits and money market funds with commercial banks and other financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. Therefore, the failure of an underlying institution could result in financial loss to FARE. However, management believes the risk of loss to be minimal given the reputation of the commercial banks and other financial institutions.

Market value risk: FARE's investment consists entirely of the common stock of Aimmune Therapeutics Inc., which, beginning in August 2015, is a publicly traded company. Investments in common stock of publicly traded companies are exposed to market and credit risks. Therefore, FARE's investment may be subject to significant fluctuations in fair value. As a result, the investment reported in the accompanying financial statements may not be reflective of the fair value of the investment during subsequent periods.

Pledges receivable: FARE's pledges receivable include large amounts from a few donors. In particular, pledges receivable included gifts from five donors which approximated 52% of the balance at December 31, 2015. Pledges receivable included gifts from four donors which approximated 81% of the balance at December 31, 2014.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### C. INVESTMENT

FARE has an investment in Aimmune Therapeutics, Inc. (AIMT), which became a publicly traded company in August 2015. AIMT was formerly known as Allergen Research Corporation (ARC) but, in May 2015, ARC changed its name to Aimmune Therapeutics, Inc. (AIMT).

FARE's investment originated, as a founding investor, in December 2011 when AIMT was a privately-held, development stage company with a food allergy related mission. AIMT improves the lives of children and young adults with food allergies by developing and commercializing safe, pharmaceutical-grade food allergens for oral immunotherapy.

Taken together, FARE's Series A preferred stock and common stock ownership interest was 22.42% at December 31, 2014. Because FARE's ownership in AIMT exceeded 20%, the investment was reported in FARE's financial statements using the equity method of accounting. Specifically, FARE's investment in AIMT consisted of the following at December 31, 2014:

	Shares Issued	Shares Owned	Ownership Interest
Series A preferred stock	10,071,352	2,056,644	20.42%
Common stock	3,228,740	925,926	28.68%

During the year ended December 31, 2014, additional shares of Series A preferred stock were issued by AIMT and were purchased by other third-party investors. The issuance of additional shares required that FARE recognize a gain related to the difference between its proportionate share of the underlying equity of AIMT and the carrying amount of its investment. The gain related to this stock transaction totaled \$25,295 for the year ended December 31, 2014.

FARE's equity method investment totaled \$150,505 at December 31, 2014. FARE's equity in the loss of AIMT totaled \$2,697,712 for the year ended December 31, 2014.

In January and February 2015, AIMT authorized 10,816,667 shares of Series B convertible preferred stock and issued 10,666,667 shares of Series B convertible preferred stock at \$0.0001 par value with an original issue price of \$7.50 per share. In relation to the Series B stock issuance, AIMT bought \$7,712,415 of Series A preferred stock from FARE which resulted in a realized gain totaling \$7,661,251 for the year ended December 31, 2015. Upon issuance of the Series B convertible preferred stock, FARE no longer had voting rights as a member of the AIMT Board of Directors. As a result of the stock issuance and the removal of voting rights, FARE does not have significant ownership in or influence over AIMT.

In July 2015, AIMT had a stock split. Shortly thereafter, in August 2015, AIMT had an initial public offering (IPO) of its common stock. As a result, FARE owned 2,573,744 shares of AIMT common stock with a fair market value of \$18.45 per share. FARE's investment in AIMT, which is reported in the financial statements at fair value, totaled \$47,485,577 at December 31, 2015.

Effective with the IPO in August 2015, FARE's investment in AIMT was based on the fair value of the stock, which was determined using Level 1 inputs such as quoted market prices. In accordance with generally accepted accounting principles (U.S. GAAP), changes in fair value of investments are recognized as unrealized gains or losses in the statements of activities. In relation to AIMT's stock activity in 2015, FARE reported investment income consisting of both realized and unrealized gains which totaled \$55,047,487 for the year ended December 31, 2015.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### D. PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give from various donors. 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 value in the period in which FARE is notified by the grantor or donor of a commitment to make a contribution. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using a risk-adjusted discount rate of 3.25%.

Conditional promises to give are recognized when conditions upon which they depend are substantially met.

Management periodically reviews the status of all promises to give for collectability. Each balance is assessed 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 recorded in the allowance for doubtful pledges. However, management believes that pledges receivable are fully collectible at December 31, 2015 and 2014.

Pledges receivable consisted of the following at December 31,:

	2015	2014
Receivable in less than one year	\$ 1,218,962	\$ 3,376,252
Receivable in one to five years	94,378	180,702
	<u>1,313,340</u>	<u>3,556,954</u>
Less discount to net present value	(2,971)	(8,565)
	<u>\$ 1,310,369</u>	<u>\$ 3,548,389</u>

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### E. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$5,000 with a useful life of more than one year are recorded at cost and depreciated or amortized using the straight-line method over the following useful lives: office furniture and equipment – three to five years; software – three to five years; and leasehold improvements over the lesser of the remaining life of the office lease or the estimated useful life of the improvements.

Property and equipment consisted of the following at December 31,:

	2015	2014
Office furniture and equipment	\$ 179,276	\$ 148,648
Software	13,530	39,380
Leasehold improvements	<u>16,547</u>	<u>16,547</u>
	209,353	204,575
Less accumulated depreciation and amortization	<u>(111,369)</u>	<u>(115,604)</u>
	<u><b>\$ 97,984</b></u>	<u><b>\$ 88,971</b></u>

Depreciation and amortization expense totaled \$43,942 and \$42,032 for the years ended December 31, 2015 and 2014, respectively.

### F. GRANTS PAYABLE

Grants authorized by the Research Advisory Board are approved by the Board of Directors. Grants are recognized as grant expense in the year they are authorized and upon execution of a signed grant agreement. Grants not paid during the year are recorded in grants payable until disbursed or closed out. Grants payable over multiple future years are recorded at net present value using a risk-adjusted discount rate of 3.25%.

Inactive grants are closed out, written-off, and not paid to grantees based on review by the Research Advisory Board and after approval by the Board of Directors. Such close outs result in a reduction of grant expense in the financial statements which totaled \$0 and \$537,009 for the years ended December 31, 2015 and 2014, respectively.

Grants are expected to be paid over future years as follows at December 31,:

	2015	2014
Payable in less than one year	\$ 2,989,568	\$ 1,783,273
Payable in one to five years	<u>2,796,261</u>	<u>776,092</u>
	5,785,829	2,559,365
Less discount to net present value	<u>(181,456)</u>	<u>(30,115)</u>
	<u><b>\$ 5,604,373</b></u>	<u><b>\$ 2,529,250</b></u>

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### G. NET ASSETS

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. Undesignated net assets are used for the general operations of FARE. Designated net assets include those net assets whose use by FARE has been designated by a resolution of the Board of Directors. FARE's board-designated net assets have been set aside to fund research grants included in grants payable which totaled \$228,040 and \$685,320 at December 31, 2015 and 2014, respectively.

Temporarily restricted: Temporarily restricted net assets include those net assets whose use by FARE has been donor restricted by specified time or purpose limitations. Net assets are released from restrictions either as a result of the expiration of a time restriction or due to the satisfaction of a purpose restriction.

Temporarily restricted net assets consisted of the following at December 31,:

	2015	2014
Time restrictions	\$ 1,785,202	\$ 1,103,751
Educational restrictions	1,506,315	1,034,979
Research restrictions	<u>1,502,909</u>	<u>2,811,831</u>
	<u><b>\$ 4,794,426</b></u>	<u><b>\$ 4,950,561</b></u>

Net assets released from restrictions consisted of the following for the years ended December 31,:

	2015	2014
Time restrictions	\$ 351,704	\$ 589,871
Educational restrictions	283,046	1,276,555
Research restrictions	<u>1,822,922</u>	<u>894,201</u>
	<u><b>\$ 2,457,672</b></u>	<u><b>\$ 2,760,627</b></u>

### H. RETIREMENT PLAN

FARE sponsors a defined contribution 401(k) retirement plan for all employees who have met certain eligibility requirements. The plan requires employer contributions equal to 3% of the participating employees' eligible compensation. FARE's contributions to the plan totaled \$136,611 and \$137,582 for the years ended December 31, 2015 and 2014, respectively.



# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### I. ALLOCATION OF JOINT COSTS

FARE incurred joint costs relating to activities, such as walk-a-thons, that included appeals for contributions from participants and donors as well as program components. The walk-a-thons included both program content and appeals for contributions. Therefore, joint costs allocated between program and supporting services totaled \$2,115,012 and \$2,633,341 during the years ended December 31, 2015 and 2014, respectively.

Joint costs were allocated to the following activities for the years ended December 31,:

	2015	2014
Awareness	\$ 1,372,489	\$ 2,080,340
Fundraising	<u>742,523</u>	<u>553,001</u>
	<u>\$ 2,115,012</u>	<u>\$ 2,633,341</u>

### J. COMMITMENTS AND CONTINGENCIES

*Operating leases:* FARE has a 10-year operating lease for office space in New York, New York which expires June 2020. The lease which includes a rent abatement and an escalation of annual base rent over the term of the lease. Operating expenses and real estate taxes are not included in base rent. The lease can be terminated after the fifth year of the term if FARE provides six months' prior written notice to the lessor and pays a termination fee of \$99,300.

FARE has a 64-month operating lease for office space in McLean, Virginia which expires May 2018. The lease which includes a rent abatement and an escalation of annual base rent over the term of the lease. Operating expenses and real estate taxes are not included in base rent. FARE signed an amendment to the lease for additional space, effective October 1, 2014.

In addition, FARE has operating leases for its three regional offices. The regional office leases expire on various dates through December 31, 2018.

Occupancy expense related to the leases, which includes operating expenses and real estate taxes, totaled \$470,088 and \$469,404 for the years ended December 31, 2015 and 2014, respectively. A deferred rent liability has been recorded to report rent expense on a straight-line basis over the terms of the operating leases in accordance with U.S. GAAP.

Future minimum lease payments under the leases are as follows:

Year Ending December 31,	Amount
2016	\$ 432,200
2017	415,300
2018	288,600
2019	155,300
2020	<u>78,400</u>
	<u>\$ 1,369,800</u>

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### J. COMMITMENTS AND CONTINGENCIES – CONTINUED

Sublease: During the year ended December 31, 2015, FARE subleased a portion of its McLean, Virginia office. The sublease expires January 31, 2017 and rental income totaled \$11,270 for the year ended December 31, 2015. Future minimum sublease receipts will approximate \$33,800 and \$2,800 for the years ending December 31, 2016 and 2017, respectively.

Commitments: FARE has agreements and contracts with various hotels and other venues for special events and educational conferences that will be held in the future. The agreements and contracts contain various attrition clauses whereby FARE may be liable for liquidated damages in the event of cancellation or lower than anticipated attendance. Because several variables are involved, FARE's ultimate liability under these agreements and contracts cannot be determined and depends on the nature, timing and number of event cancellations. However, FARE's management does not believe that any material losses will be incurred under the hotel contracts.

Employment agreements: FARE has an employment agreement with its Chief Executive Officer, which automatically renews for consecutive two-year terms unless notice of non-renewal is given to either party 90 days prior to the expiration date which is December 31, 2017. In addition, the Chief Executive Officer may be eligible for additional compensation in 2017 but only if certain goals have been met which are stipulated in the agreement. Due to its contingent nature, this potential liability has not been recorded in the financial statements.

In addition, FARE has an employment agreement with its Senior Vice President of Research and Operations. Under the terms of the agreement, FARE may agree to pay severance upon termination of the employee. The amount of severance that may be agreed upon will take into account years of service and circumstances of separation.

### K. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 24, 2016, which is the date the financial statements were available to be issued.

During the subsequent period, FARE continued to liquidate its investment in Aimmune Therapeutics, Inc. (AIMT). In particular, FARE sold 932,195 shares of AIMT common stock through May 24, 2016 for net proceeds from the sale which totaled \$13,393,829.

Furthermore, the price per share of AIMT common stock was \$14.29 on May 24, 2016.