

**Audited Financial Statements**

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

*December 31, 2018*

# 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, 2018 and 2017, and the related statements of activities, functional expense, and cash flows for the years 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 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 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, 2018 and 2017, and the changes 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.

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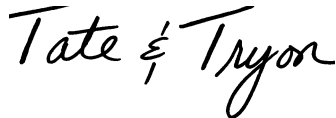
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To the Board of Directors  
July 1, 2019  
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**Adoption of Accounting Standards Update 2016-14**

As described in Note A to the financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by the FASB, FARE adopted the provisions of ASU 2016-14 during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources. There was no change in FARE's previously reported change in net assets as a result of the adoption of the ASU. Our opinion is not modified with respect to this matter.



Washington, DC  
July 1, 2019

# Food Allergy Research & Education, Inc.

## Statements of Financial Position

<b>December 31,</b>	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 10,406,269	\$ 50,031,388
Investments	37,497,577	-
Accounts receivable	112,788	12,805
Pledges receivable	7,005,259	5,122,649
Prepaid expense	204,402	193,632
Property and equipment	385,356	60,292
Deposits and other assets	72,537	117,731
<b>Total assets</b>	<b>\$ 55,684,188</b>	<b>\$ 55,538,497</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 537,406	\$ 1,401,859
Grants payable	2,749,355	4,031,407
Deferred rent and lease incentive	457,237	60,043
<b>Total liabilities</b>	<b>3,743,998</b>	<b>5,493,309</b>
Net assets		
Without donor restrictions	40,799,051	40,298,373
With donor restrictions	11,141,139	9,746,815
<b>Total net assets</b>	<b>51,940,190</b>	<b>50,045,188</b>
<b>Total liabilities and net assets</b>	<b>\$ 55,684,188</b>	<b>\$ 55,538,497</b>

See notes to the financial statements.

# Food Allergy Research & Education, Inc.

## Statements of Activities

Years Ended December 31,	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
Contributions	\$ 5,968,788	\$ 4,795,320	\$ 10,764,108	\$ 3,287,735	\$ 6,092,222	\$ 9,379,957
Special events	3,609,413	616,369	4,225,782	3,492,760	83,090	3,575,850
Other income	388,260		388,260	29,137		29,137
Federal grants	98,837		98,837	87,955		87,955
Interest income	39,080		39,080	201,479		201,479
Product sales	34,966		34,966	64,955		64,955
Educational conference		10,000	10,000	75,527	10,000	85,527
Advertising income	9,350		9,350	20,450		20,450
	10,148,694	5,421,689	15,570,383	7,259,998	6,185,312	13,445,310
Net assets released from restriction	4,027,365	(4,027,365)	-	2,945,778	(2,945,778)	-
Total revenue and support	14,176,059	1,394,324	15,570,383	10,205,776	3,239,534	13,445,310
Expense						
Program services						
Education and advocacy	2,914,801		2,914,801	3,798,812		3,798,812
Research	2,817,639		2,817,639	4,464,796		4,464,796
Awareness	2,472,001		2,472,001	2,001,846		2,001,846
Total program services	8,204,441	-	8,204,441	10,265,454	-	10,265,454
Supporting services						
Fundraising	3,017,350		3,017,350	3,140,946		3,140,946
General and administrative	1,981,830		1,981,830	1,532,653		1,532,653
Total supporting services	4,999,180	-	4,999,180	4,673,599	-	4,673,599
Total expense	13,203,621	-	13,203,621	14,939,053	-	14,939,053
Change in net assets from operations	972,438	1,394,324	2,366,762	(4,733,277)	3,239,534	(1,493,743)
Net investment (loss) income	(471,760)		(471,760)			-
Change in net assets	500,678	1,394,324	1,895,002	(4,733,277)	3,239,534	(1,493,743)
Net assets, beginning of year	40,298,373	9,746,815	50,045,188	45,031,650	6,507,281	51,538,931
<b>Net assets, end of year</b>	<b>\$ 40,799,051</b>	<b>\$ 11,141,139</b>	<b>\$ 51,940,190</b>	<b>\$ 40,298,373</b>	<b>\$ 9,746,815</b>	<b>\$ 50,045,188</b>

See notes to the financial statements.

# Food Allergy Research & Education, Inc.

## Statement of Functional Expense Year Ended December 31, 2018

	Program Services				Supporting Services			Total
	Education and Advocacy	Research	Awareness	Total	General and Administrative		Total	
	Fundraising			Total			Total	
Salaries	\$ 1,447,450	\$ 896,753	\$ 1,015,489	\$ 3,359,692	\$ 1,092,224	\$ 1,006,172	\$ 2,098,396	\$ 5,458,088
Employee benefits	150,087	61,406	137,927	349,420	140,614	33,430	174,044	523,464
Payroll taxes	116,227	42,518	87,975	246,720	79,270	22,381	101,651	348,371
Retirement	59,432	24,736	38,592	122,760	44,703	11,094	55,797	178,557
Subtotal salaries and benefits	1,773,196	1,025,413	1,279,983	4,078,592	1,356,811	1,073,077	2,429,888	6,508,480
Professional fees	529,444	620,092	632,337	1,781,873	378,832	687,708	1,066,540	2,848,413
Grants	133,869	892,841		1,026,710			-	1,026,710
Special events	128,983	59,599	20,620	209,202	618,280	536	618,816	828,018
Information technology	73,451	36,227	230,412	340,090	63,445	59,440	122,885	462,975
Office expense	60,466	16,363	150,010	226,839	148,930	24,709	173,639	400,478
Occupancy	82,951	52,175	54,317	189,443	111,232	91,627	202,859	392,302
Travel and entertainment	86,592	101,456	54,536	242,584	50,663	14,419	65,082	307,666
Advertising and promotion	16,923	2,264	28,043	47,230	56,307	80	56,387	103,617
Bank fees	5,186			5,186	86,156	10,695	96,851	102,037
Donated goods				-	80,898		80,898	80,898
Depreciation and amortization	16,063	10,122	10,538	36,723	13,528	17,775	31,303	68,026
Other expense	1,235	796	1,866	3,897	38,082	1,253	39,335	43,232
Mail shop fees	399		9,037	9,436	13,797		13,797	23,233
Costs of goods sold	5,581			5,581			-	5,581
Insurance	462	291	302	1,055	389	511	900	1,955
<b>Total expense</b>	<b>\$ 2,914,801</b>	<b>\$ 2,817,639</b>	<b>\$ 2,472,001</b>	<b>\$ 8,204,441</b>	<b>\$ 3,017,350</b>	<b>\$ 1,981,830</b>	<b>\$ 4,999,180</b>	<b>\$ 13,203,621</b>

See notes to the financial statements.

# Food Allergy Research & Education, Inc.

## Statement of Functional Expense Year Ended December 31, 2017

	Program Services				Supporting Services			Total
	Education and Advocacy	Research	Awareness	Total	General and Administrative		Total	
	Fundraising	Administrative	Total					
Salaries	\$ 1,583,717	\$ 804,074	\$ 1,245,011	\$ 3,632,802	\$ 958,349	\$ 1,025,660	\$ 1,984,009	\$ 5,616,811
Employee benefits	141,418	71,800	111,173	324,391	85,576	91,586	177,162	501,553
Payroll taxes	109,852	55,773	86,358	251,983	66,474	71,144	137,618	389,601
Retirement	47,089	23,908	37,018	108,015	28,495	30,495	58,990	167,005
Subtotal salaries and benefits	1,882,076	955,555	1,479,560	4,317,191	1,138,894	1,218,885	2,357,779	6,674,970
Professional fees	1,054,611	330,266	126,846	1,511,723	436,726	80,960	517,686	2,029,409
Grants	108,022	2,930,492		3,038,514	5,000		5,000	3,043,514
Special events	168,538	26,608	8,454	203,600	676,230	125	676,355	879,955
Information technology	72,249	30,972	60,291	163,512	283,359	63,905	347,264	510,776
Office expense	78,363	12,034	69,490	159,887	156,416	16,334	172,750	332,637
Occupancy	93,533	48,712	68,055	210,300	111,874	106,704	218,578	428,878
Travel and entertainment	264,384	116,394	49,512	430,290	82,903	16,601	99,504	529,794
Advertising and promotion	2,271	11	85,466	87,748	84,969	25	84,994	172,742
Bank fees	20,451	1,833	36,877	59,161	47,045	3,995	51,040	110,201
Donated goods				-	36,283		36,283	36,283
Depreciation and amortization	5,502	2,921	4,034	12,457	4,191	6,399	10,590	23,047
Other expense	1,664	286	813	2,763	2,180	557	2,737	5,500
Mail shop fees	192	424	1,003	1,619	25,012	7	25,019	26,638
Costs of goods sold	31,348			31,348	475		475	31,823
Insurance	15,608	8,288	11,445	35,341	11,889	18,156	30,045	65,386
Bad debt				-	37,500		37,500	37,500
<b>Total expense</b>	<b>\$ 3,798,812</b>	<b>\$ 4,464,796</b>	<b>\$ 2,001,846</b>	<b>\$ 10,265,454</b>	<b>\$ 3,140,946</b>	<b>\$ 1,532,653</b>	<b>\$ 4,673,599</b>	<b>\$ 14,939,053</b>

See notes to the financial statements.



# Food Allergy Research & Education, Inc.

## Statements of Cash Flows

<b>Year Ended December 31,</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 1,895,002	\$ (1,493,743)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized loss on investments	1,034,405	-
Bad debt expense	-	37,500
Change in discount on pledges receivable	(81,898)	(28,239)
Depreciation and amortization of property and equipment	68,026	23,047
Change in discount on grants payable	(15,357)	(49,597)
Grants payable written off	(688,117)	(109,808)
Changes in assets and liabilities		
Accounts receivable	(99,983)	(645)
Pledges receivable	(1,800,712)	(3,290,676)
Prepaid expense	(10,770)	(15,206)
Deposits and other assets	45,194	(56,243)
Accounts payable and accrued expenses	(864,453)	584,341
Grants payable	(578,578)	(448,788)
Deferred rent and lease incentive	397,194	(34,648)
Total adjustments	(2,595,049)	(3,388,962)
Net cash used in operating activities	(700,047)	(4,882,705)
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	67,527,644	-
Purchases of investments	(106,059,626)	-
Purchases of property and equipment	(393,090)	(21,201)
Net cash used in investing activities	(38,925,072)	(21,201)
<b>Decrease in cash and cash equivalents</b>	<b>(39,625,119)</b>	<b>(4,903,906)</b>
Cash and cash equivalents, beginning of year	50,031,388	54,935,294
<b>Cash and cash equivalents, end of year</b>	<b>\$ 10,406,269</b>	<b>\$ 50,031,388</b>
<b>Schedule of noncash investing activities</b>		
Donated securities liquidated to cash	\$ 304,336	\$ 1,365,603
Property and equipment purchased with lease incentive	\$ 355,018	\$ -

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 32 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 been classified as not a private foundation by the Internal Revenue Service. FARE is subject to tax on its net unrelated business income activities.

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 consisted of an insurance reimbursement and accrued interest in 2018 and contract receivables in 2017. 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 an allowance for doubtful accounts receivable. However, management believes that accounts receivable are fully collectible at December 31, 2018 and 2017.

Contributions: Contributions are recognized at fair value when unconditionally promised to, or received by, FARE. Contributions with conditions include barriers FARE must overcome and are, therefore, recognized when the conditions have been met.

Contributions are recorded as within activities without donor restrictions or within activities with donor restrictions depending upon the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions when either the purpose restriction is satisfied, or the time restriction expires. Contributions with donor restrictions are reported within activities without donor restrictions when the restrictions have been met within the same year.

Membership dues are considered to be contributions and, as such, membership dues are recognized when received within activities with donor restrictions due to the implied time restriction. Membership dues are released from restriction using a straight-line amortization over the membership period. FARE's membership categories include one year, five year and life time memberships which are released over a five year period.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

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

*In-kind contributions:* 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 \$80,898 and \$36,283, during the years ended December 31, 2018 and 2017, respectively. Furthermore, during the years ended December 31, 2018 and 2017, FARE received donated securities with a fair value of \$304,336 and \$1,365,603 which was immediately sold for proceeds approximating the fair value. FARE converts donated securities to cash immediately upon receipt and, therefore, such cash is reported within cash flows from operating activities.

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

*Other income:* Other income primarily included a legal settlement and a royalty in 2018 and a royalty in 2017.

*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.

*Functional allocation of expense:* The costs of providing the various program and supporting activities of FARE have been summarized on a functional basis in the accompanying statements of activities and functional expense. Costs related to a specific functional activity are charged directly to that activity. However, other indirect costs are allocated among the program and supporting services benefited based on management's best estimates. In particular, salaries and benefits and other shared costs such as occupancy, depreciation and amortization, and information technology costs are allocated based on employee time and effort studies.

*Program services:* Program services descriptions are as follows:

*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 the 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.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

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

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 conference activities; grant expenses in support of the Community Outreach and Leader's Summit programs, and other technology infrastructure support as programs require.

*Research:* FARE is committed to supporting food allergy research progress in a number of ways. The cornerstone of those 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. At the end of 2018, there were 33 FCN centers of excellence.

FARE is also committed to markedly increasing the number of investigators in the field through its FARE Investigator in Food Allergy Award Program. The Program is divided into two categories: New Investigator Awards and Mid-Career Awards. 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 is included grants in the accompanying statements of functional expense.

*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 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, media outreach, marketing and promotion, monitoring services and other technology infrastructure support.

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.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

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

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

*Measure of operations:* FARE considers net investment (loss) income to be a non-operating item. Thus, the net investment (loss) income is not included in the change in net assets from operations.

*Change in accounting policies:* FARE adopted FASB Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended December 31, 2018. ASU 2016-14 refreshes current accounting standards by simplifying the presentation of net assets on the face of the financial statements and enhancing disclosures related to liquidity and functional expense. Accounting and reporting changes related to ASU No. 2016-14 have been retrospectively applied to all prior periods presented as if the policy had always been in effect.

*Reclassifications:* Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in net assets. Amounts previously reported in the financial statements as of and for the year ended December 31, 2017 were reclassified as follows:

	Previously Reported	Reclassifications	Currently Reported
Assets			
Inventory	\$ 28,796	\$ (28,796)	\$ -
Deposits and other assets	88,935	28,796	117,731
	<b>\$ 117,731</b>	<b>\$ -</b>	<b>\$ 117,731</b>
Expense			
Program services			
Education and advocacy	\$ 4,017,087	\$ (218,275)	\$ 3,798,812
Research	4,541,014	(76,218)	4,464,796
Awareness	2,184,596	(182,750)	2,001,846
Total program services	10,742,697	(477,243)	10,265,454
Supporting services			
Fundraising	3,371,274	(230,328)	3,140,946
General and administrative	825,082	707,571	1,532,653
Total supporting services	4,196,356	477,243	4,673,599
Total expense	<b>\$ 14,939,053</b>	<b>\$ -</b>	<b>\$ 14,939,053</b>

*Subsequent events:* Subsequent events have been evaluated through July 1, 2019, which is the date the financial statements were available to be issued.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

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### B. CONCENTRATIONS

Credit risk: FARE maintains various cash and cash equivalents accounts 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 reputations of the commercial banks and other financial institutions.

Market risk: During the year ended December 31, 2018, FARE invested its excess cash in a professionally managed portfolio of mutual funds. FARE's portfolio of investments includes risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks could materially affect the investment balances that have been reported in the accompanying financial statements.

Pledges receivable: FARE's pledges receivable included gifts from five donors which, in the aggregate, approximated 71% and 83% of pledges receivable at December 31, 2018 and 2017, respectively.

### C. INVESTMENTS

In accordance with accounting standards generally accepted in the United States of America, FARE uses the following prioritized input levels to measure the fair value of investments. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes;

Level 2 – Includes inputs other than level 1 that are directly or indirectly observable in the marketplace, such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

The fair values of mutual funds were determined using Level 1 inputs, which were based on quoted prices in active markets. Management believes the fair values of investments to be a reasonable approximation of their exit price.

Investments recorded at cost include money market funds and cash held for investment purposes. Investments at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### C. INVESTMENTS - CONTINUED

Investments consisted of the following at December 31,:

	2018	2017
Investments, at fair value (Level 1)		
Mutual funds - fixed income	\$ 12,805,722	\$ -
Investments, at cost		
Money market funds	24,377,000	-
Cash	314,855	-
	<u>24,691,855</u>	<u>-</u>
	<u><b>\$ 37,497,577</b></u>	<u><b>\$ -</b></u>

Net investment (loss) income consisted of the following for the years ended December 31,:

	2018	2017
Interest and dividends	\$ 689,785	\$ -
Net realized and unrealized loss on investments	(1,034,405)	-
Investment management fees	<u>(127,140)</u>	<u>-</u>
	<u><b>\$ (471,760)</b></u>	<u><b>\$ -</b></u>

Interest income related to cash and cash equivalents has not been included in the net investment (loss) income and totaled \$39,080 and \$201,479 for the years ended December 31, 2018 and 2017, respectively.

# 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%.

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. As a result of these reviews, promises to give deemed to be uncollectable are written off directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded. Bad debt expense totaled \$0 and \$37,500 for the years ended December 31, 2018 and 2017, respectively.

Unconditional pledges receivable consisted of the following at December 31,:

	<b>2018</b>	<b>2017</b>
Amounts due in less than one year	\$ 4,418,732	\$ 3,499,224
Amounts due in one to five years	<u>2,730,000</u>	<u>1,685,000</u>
	7,148,732	5,184,224
Less discount to net present value	<u>(143,473)</u>	<u>(61,575)</u>
	<u><b>\$ 7,005,259</b></u>	<u><b>\$ 5,122,649</b></u>



# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### E. LIQUIDITY

FARE's investment policy includes guidance related to managing liquidity and indicates that FARE's financial assets are available for general expenditures, liabilities, and other obligations that are due. In addition, FARE invests cash in excess of its current liquidity requirements in a portfolio of investments designed to maximize long-term earnings with acceptable risk to investment principal. FARE's Board of Directors has designated a portion of net assets without donor restrictions to function as a reserve fund. In the event of unanticipated liquidity needs, FARE's Board of Directors could make available all or a portion of the reserve fund.

The following provides a summary of financial assets available for general expenditures within one year at December 31,:

	2018	2017
Total assets	\$ 55,684,188	\$ 55,538,497
Less nonfinancial assets		
Prepaid expenses	(204,402)	(193,632)
Property and equipment	(385,356)	(60,292)
Deposits and other assets	<u>(72,537)</u>	<u>(117,731)</u>
	55,021,893	55,166,842
Less amounts not available for general expenditures		
Board-designated net assets	(37,922,854)	(44,197,480)
Net assets with donor restrictions	<u>(11,141,139)</u>	<u>(9,746,815)</u>
	<u><b>\$ 5,957,900</b></u>	<u><b>\$ 1,222,547</b></u>

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### F. 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,:

	2018	2017
Office furniture and equipment	\$ 215,387	\$ 179,276
Leasehold improvements	394,727	37,748
Software	13,530	13,530
	<u>623,644</u>	<u>230,554</u>
Less accumulated depreciation and amortization	<u>(238,288)</u>	<u>(170,262)</u>
	<u><b>\$ 385,356</b></u>	<u><b>\$ 60,292</b></u>

Depreciation and amortization of property and equipment totaled \$68,026 and \$23,047 for the years ended December 31, 2018 and 2017, respectively.

### G. GRANTS PAYABLE

Grants authorized by the Research Advisory Board are approved by the Board of Directors and include both unconditional and conditional grant awards.

Unconditional 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 resulted in a reduction of grant expense in the financial statements which totaled \$688,117 and \$109,808 for the years ended December 31, 2018 and 2017, respectively.

Unconditional grants payable consisted of the following at December 31,:

	2018	2017
Amounts payable in less than one year	\$ 1,489,337	\$ 2,785,472
Amounts payable in one to five years	1,300,966	1,302,240
	<u>2,790,303</u>	<u>4,087,712</u>
Less discount to net present value	<u>(40,948)</u>	<u>(56,305)</u>
	<u><b>\$ 2,749,355</b></u>	<u><b>\$ 4,031,407</b></u>

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### G. GRANTS PAYABLE - CONTINUED

FARE's conditional grants include stipulations regarding specific principal investigators who perform the research and also include certain milestones that must be met before additional installment payments are made by FARE. Conditional grants payable totaled \$586,250 at December 31, 2018 and are expected to be paid during the years ending December 31, 2019 through 2021. Conditional grants payable are not recognized in the financial statements until conditions have been met.

### H. NET ASSETS

Net assets without donor restrictions: Net assets without donor restrictions 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 intended for use in general operations.

FARE's Board of Directors has designated a portion of net assets without donor restricted as a reserve fund. In accordance with the investment policy, the reserve fund may be used to fund planned future activities, special purposes, general reserves, or contingencies that may arise. The ending balance of the reserve fund includes investment gains and losses in addition to amounts spent during the year. In particular, FARE spent approximately \$5.8 million and \$3.7 million of the reserve fund during the years ended December 31, 2018 and 2017, respectively.

Net assets without donor restrictions consisted of the following at December 31:

	2018	2017
Undesignated	\$ 2,876,197	\$ (3,899,107)
Board-designated Reserves	<u>37,922,854</u>	<u>44,197,480</u>
	<u><b>\$ 40,799,051</b></u>	<u><b>\$ 40,298,373</b></u>

Net assets with donor restrictions: Net assets with donor restrictions include those net assets whose use has been donor restricted by specified time or purpose limitations.

Net assets with donor restrictions consisted of the following at December 31,:

	2018	2017
Educational restrictions	\$ 3,343,854	\$ 4,932,799
Research restrictions	5,827,861	3,504,859
Time restrictions	<u>1,969,424</u>	<u>1,309,157</u>
	<u><b>\$ 11,141,139</b></u>	<u><b>\$ 9,746,815</b></u>

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### H. NET ASSETS - CONTINUED

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.

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

	<b>2018</b>	<b>2017</b>
Educational restrictions	\$ 1,614,047	\$ 1,253,167
Research restrictions	1,374,997	1,450,532
Time restrictions	<u>1,038,321</u>	<u>242,079</u>
	<b><u>\$ 4,027,365</u></b>	<b><u>\$ 2,945,778</u></b>

### I. 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 \$178,557 and \$167,005 for the years ended December 31, 2018 and 2017, respectively.

### J. 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. Therefore, joint costs allocated between program and supporting services totaled \$1,104,454 and \$1,109,064 during the years ended December 31, 2018 and 2017, respectively.

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

	<b>2018</b>	<b>2017</b>
Awareness	\$ 791,776	\$ 795,081
Fundraising	<u>312,678</u>	<u>313,983</u>
	<b><u>\$ 1,104,454</u></b>	<b><u>\$ 1,109,064</u></b>

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

### K. 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 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 if FARE provides six months' prior written notice to the lessor and pays a termination fee of \$99,300.

FARE had a 64-month operating lease for office space in McLean, Virginia which expired May 2018 and was not renewed. The lease included a rent abatement and an escalation of annual base rent over the term of the lease. Operating expenses and real estate taxes were not included in base rent. In addition, FARE had an operating lease for a regional office in Chicago, Illinois which expired on December 31, 2018 and was not renewed.

In September 2017, FARE signed a 66-month operating lease for office space in a different building in McLean, Virginia, which commenced in June 2018 and expires November 2023. The lease 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.

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. Furthermore, under the new lease in McLean, Virginia, FARE was provided a tenant build-out allowance totaling \$355,018 as an incentive to lease the office space. The cost of the build-out and reimbursement for furniture and equipment has been capitalized within property and equipment and will be amortized over the remaining term of the lease and a corresponding liability has been recorded. Therefore, FARE has recorded a liability for deferred rent and lease incentive totaling \$457,237 and \$60,043 at December 31, 2018 and 2017, respectively.

Rent expense related to the office leases included operating expenses and real estate taxes and has been reported in occupancy expense in the accompanying statements of functional expense. Occupancy expense totaled \$392,302 and \$428,878 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under the leases are as follows:

Year Ending December 31,	Amount
2019	\$ 384,800
2020	314,200
2021	242,300
2022	249,000
2023	234,300
	<u>\$ 1,424,600</u>

# Food Allergy Research & Education, Inc.

## Notes to the Financial Statements

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### K. COMMITMENTS AND CONTINGENCIES - CONTINUED

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 effective which expires December 31, 2020. FARE may terminate the agreement without cause at any time with at least 30 days advance written notice. If the agreement is terminated without cause, FARE will be required to pay severance as stipulated in the agreement.

FARE also 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 without cause. The amount of severance that may be agreed upon will take into account years of service and circumstances of separation.

Legal matters: From time to time, FARE may be subject to various legal proceedings, which are incidental to the ordinary course of business. In the opinion of management, there are no material legal proceedings to which FARE is a party.