

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
D/B/A MYFACE, THE NEW FACE OF THE NFFR



Financial Statements
(Together with Independent Auditors' Report)

September 30, 2016 and 2015

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

National Foundation for Facial Reconstruction, Inc.

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

SEPTEMBER 30, 2016 AND 2015

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M A R K S P A N E T H
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
National Foundation For Facial Reconstruction, Inc.

We have audited the accompanying financial statements of the National Foundation for Facial Reconstruction, Inc. D/B/A myFace ("NFFR"), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, functional expenses 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 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 controls 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, the financial statements referred to above present fairly, in all material respects, the financial position of NFFR as of September 30, 2016 and 2015, 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.



Purchase, NY
April 14, 2017

**NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
STATEMENTS OF FINANCIAL POSITION**

	September 30,	
	2016	(Restated) 2015
ASSETS		
Cash and cash equivalents	\$ 170,416	\$ 603,017
Investments	20,343,026	14,983,817
Pledges receivable - Net	276,594	3,385,720
Prepaid expenses and other assets	239,951	67,362
Property and equipment, net of accumulated depreciation	1,916,447	1,975,665
TOTAL ASSETS	\$ 22,946,434	\$ 21,015,581
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 91,714	\$ 108,925
Grants payable	-	500,000
TOTAL LIABILITIES	91,714	608,925
CONTINGENCY AND COMMITMENTS		
Net Assets		
Unrestricted	12,296,245	10,020,649
Temporarily restricted	8,158,475	7,986,007
Permanently restricted	2,400,000	2,400,000
TOTAL NET ASSETS	22,854,720	20,406,656
TOTAL LIABILITIES AND NET ASSETS	\$ 22,946,434	\$ 21,015,581

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

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
STATEMENTS OF ACTIVITIES

	For the Year Ended September 30, 2016			For the Year Ended September 30, 2015			
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Permanently	Total
		Restricted	Restricted		Restricted	Restricted	
SUPPORT AND REVENUE:							
Contributions and grants	\$ 3,049,406	\$ 995,354	\$ -	\$ 4,781,773	\$ 744,530	\$ -	\$ 5,526,303
Special events (net of direct benefit costs of \$214,666 in 2016 and \$330,993 in 2015)	468,787	-	-	577,089	-	-	577,089
Investment income (loss)	1,390,061	87,243	-	(440,745)	138,310	-	(302,435)
Donated goods and services	145,401	-	-	128,874	-	-	128,874
Other income	2,042	-	-	2,055	-	-	2,055
	<u>5,055,697</u>	<u>1,082,597</u>	<u>-</u>	<u>5,049,046</u>	<u>882,840</u>	<u>-</u>	<u>5,931,886</u>
Total public support and revenue before release of restrictions	910,129	(910,129)	-	782,421	(782,421)	-	-
Net assets released from restrictions							
	<u>5,965,826</u>	<u>172,468</u>	<u>-</u>	<u>5,831,467</u>	<u>100,419</u>	<u>-</u>	<u>5,931,886</u>
Total public support and revenue							
	<u>2,837,338</u>	<u>-</u>	<u>-</u>	<u>2,783,813</u>	<u>-</u>	<u>-</u>	<u>2,783,813</u>
Program services	420,253	-	-	202,897	-	-	202,897
Administrative support	432,639	-	-	539,257	-	-	539,257
Fundraising							
	<u>3,690,230</u>	<u>-</u>	<u>-</u>	<u>3,525,967</u>	<u>-</u>	<u>-</u>	<u>3,525,967</u>
TOTAL EXPENSES							
	<u>2,275,596</u>	<u>172,468</u>	<u>-</u>	<u>2,306,500</u>	<u>100,419</u>	<u>-</u>	<u>2,405,919</u>
CHANGE IN NET ASSETS							
	<u>10,020,649</u>	<u>7,986,007</u>	<u>2,400,000</u>	<u>10,715,149</u>	<u>4,885,588</u>	<u>2,400,000</u>	<u>18,000,737</u>
NET ASSETS - BEGINNING OF YEAR - previously stated							
Restated							
	<u>\$ 12,296,245</u>	<u>\$ 8,158,475</u>	<u>\$ 2,400,000</u>	<u>\$ 10,020,649</u>	<u>\$ 7,986,007</u>	<u>\$ 2,400,000</u>	<u>\$ 20,406,656</u>
NET ASSETS - END OF YEAR							

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

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2016

	Supporting Services			2016 Total Expenses	2015 Total Expenses
	Program Services	Administrative Support	Fundraising		
Salaries and wages	\$ 237,377	82,917	\$ 231,304	\$ 551,598	\$ 526,837
Payroll taxes and employee benefits	37,134	22,386	35,986	95,506	103,278
Total salaries and related costs	274,511	105,303	267,290	647,104	630,115
Support of Wyss Department of Plastic Surgery	2,489,818	-	-	2,489,818	2,203,558
Direct laboratory	-	-	-	-	100,000
Research	-	-	-	-	76,000
Office and other expenses	4,792	57,500	13,172	75,464	54,162
Postage and printing	-	-	-	-	11,615
Insurance	-	22,036	511	22,547	1,197
Depreciation	20,134	20,134	18,950	59,218	69,534
Professional fees	43,456	85,857	55,532	184,845	154,270
Equipment rental	-	53,110	5,352	58,462	38,916
Technology and communication	-	-	-	-	43,171
Dues and subscriptions	-	-	-	-	983
Travel	4,627	2,108	636	7,371	5,893
Other	-	-	-	-	479
SUBTOTAL	2,837,338	346,048	361,443	3,544,829	3,389,893
In-kind expenses:					
Advertising and marketing	-	-	-	-	18,000
Legal	-	74,205	-	74,205	-
Donated goods	-	-	71,196	71,196	118,074
In-kind expenses	-	74,205	71,196	145,401	136,074
TOTAL EXPENSES	\$ 2,837,338	\$ 420,253	\$ 432,639	\$ 3,690,230	\$ 3,525,967

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

**NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
STATEMENT OF FUNCTIONAL EXPENSES**

	For the Year Ended September 30, 2015				2015 Total Expenses
	Program Services	Administrative Support	Fundraising	Supporting Services	
Salaries and wages	\$ 211,559	\$ 83,066	\$ 232,212	\$ 526,837	
Payroll taxes and employee benefits	41,473	16,284	45,521	103,278	
Total salaries and related costs	<u>253,032</u>	<u>99,350</u>	<u>277,733</u>	<u>630,115</u>	
Support of Wyss Department of Plastic Surgery	2,203,558	-	-	2,203,558	
Direct laboratory	100,000	-	-	100,000	
Research and support	76,000	-	-	76,000	
Office and other expenses	10,890	31,386	11,886	54,162	
Postage and printing	2,571	5,343	3,601	11,615	
Insurance	75	1,122	-	1,197	
Depreciation	23,178	23,178	23,178	69,534	
Professional fees	66,336	23,141	64,793	154,270	
Consultants	-	-	-	-	
Equipment rental	13,231	13,231	12,454	38,916	
Advertising and promotion	-	-	-	-	
Technology and communication	28,925	4,749	9,497	43,171	
Dues and subscriptions	983	-	-	983	
Data processing fees	-	-	-	-	
Travel	4,455	1,397	41	5,893	
Other	479	-	-	479	
SUBTOTAL	<u>2,783,813</u>	<u>202,897</u>	<u>403,183</u>	<u>3,389,893</u>	
In-kind expenses:					
Advertising and marketing	-	-	18,000	18,000	
Legal	-	-	-	-	
Donated goods	-	-	118,074	118,074	
Subtotal In-kind expenses	<u>-</u>	<u>-</u>	<u>136,074</u>	<u>136,074</u>	
TOTAL EXPENSES	<u>\$ 2,783,813</u>	<u>\$ 202,897</u>	<u>\$ 539,257</u>	<u>\$ 3,525,967</u>	

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

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
STATEMENTS OF CASH FLOWS
YEAR ENDED SEPTEMBER 30,

	Year Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets:	\$ 2,448,064	\$ 2,405,919
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	59,218	69,534
Realized and unrealized (gain) loss on investments	(1,199,380)	556,984
Changes in operating assets and liabilities:		
Pledges receivable	3,109,126	506,267
Prepaid expenses and other assets	(172,589)	92,889
Accounts payable and accrued expenses	(17,211)	(74,255)
Grants payable	(500,000)	(1,225,607)
Net Cash Provided by Operating Activities	3,727,228	2,331,731
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(5,313,946)	(8,370,538)
Proceeds from sale of investments	1,154,117	6,087,902
Net Cash Used in Investing Activities	(4,159,829)	(2,282,636)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(432,601)	49,095
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	603,017	553,922
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 170,416	\$ 603,017

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

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The National Foundation for Facial Reconstruction, Inc. ("NFFR") operates under the name myFace ("myFace"). myFace is dedicated to transforming the lives of patients with facial disfigurement and their families. With a special focus on children, myFace funds medical, surgical, dental and psychosocial services as well as research and raises public awareness.

NFFR was incorporated in 1951 in the State of New York and is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code and from state and local taxes under comparable laws.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting and Use of Estimates

The accompanying financial statements of the NFFR have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

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 certain reported amounts of assets and liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

B. Basis of Presentation

NFFR maintains its net assets under the following classes:

- Unrestricted – represents resources available for support of the NFFR's operations over which the Board of Trustees has discretionary control.
- Temporarily Restricted – represents assets that are subject to donor-imposed stipulations. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted – represents those resources the principal of which is originally restricted into perpetuity by donors. The purposes for which the income and net capital appreciation arising from the underlying assets may be used depend on the wishes of those donors. Under the terms of the New York Prudent Management of Institution Fund Act ("NYPMIFA"), those earnings are classified as temporarily restricted in the accompanying statements of activities, pending appropriation by the Board of Trustees.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash and Cash Equivalents

NFFR considers all highly liquid financial investments purchased with a maturity of three months or less to be cash equivalents, except for those held in the investment portfolio.

D. Investments

Investments are carried at fair value. Unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and investment income is recognized as revenue in the period earned. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy provides observable and unobservable inputs used to measure fair value into three levels as described in Note 3. Donated securities are recorded at their fair values on the dates of the gifts.

E. Contributions and Grants

Contributions are considered available for unrestricted use, unless the donors restrict the use thereof, either on a temporary or permanent basis. Contributions to be received over periods greater than one year are discounted at an appropriate interest rate commensurate with the risk involved. Contribution revenue has been recognized based on the present value of the estimated future payments to be made to NFFR.

Bequests are recorded as income when the will has cleared probate and the sum is certain.

F. Allowance for Uncollectible Pledges Receivables

NFFR determines whether an allowance for uncollectible contributions and grants receivables should be provided based on prior years' experience and management's analysis of specific promises to give. As of September 30, 2016 and 2015, NFFR determined that no allowance was necessary.

G. Donated services

Those donated services that meet the requirements for recognition under accounting principles generally accepted in the United States of America are recorded as both revenue and expense in the accompanying statements of activities, at amounts determined by management to be reasonable for acquiring such services. A number of volunteers have routinely made significant contributions of their time to NFFR. However, such contributed services do not meet the criteria for recognition under generally accepted accounting principles, and thus they are not included in the accompanying financial statements.

NFFR coordinates pro bono surgical procedures contributed by medical professionals for those who are affected by facial disfigurement. During fiscal years 2016 and 2015, NFFR coordinated approximately \$1.4 million and \$3.3 million, respectively, in donated surgical procedures. Since the NFFR is not the direct recipient of these services, the values are not reported in the accompanying financial statements.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Property and Equipment

Property and equipment are stated at their original costs at the date of acquisition or at their fair values at the dates of donation. NFFR capitalizes property and equipment with a cost of \$1,000 or more and a useful life greater than one year. Depreciation is provided using the straight-line method over the assets' estimated useful lives which range from 3 to 40 years.

I. Grants Payable

Grants payable are recorded at the time the grant is awarded, unless there is an unconditional right to revoke the grant commitment or the grant is contingent on future events. Grants awarded but unpaid at year end are reported as grants payable in the accompanying statements of financial position. NFFR has not made any grants with restrictions that would revoke the grant.

J. Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, expenses have been allocated among the programs and supporting services using appropriate measurement methodologies developed by management.

K. Income Taxes

NFFR follows Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 3 – INVESTMENTS

At each fiscal year-end, investments consisted of the following:

	September 30,			
	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 52,307	\$ 52,307	\$ 34,322	\$ 34,322
Fixed-income securities	8,762,446	8,911,457	7,238,062	7,289,230
Equity securities	8,354,643	9,122,405	7,125,041	6,893,970
Alternative investments	2,371,369	2,256,857	831,244	766,295
	<u>\$ 19,540,765</u>	<u>\$ 20,343,026</u>	<u>\$ 15,228,669</u>	<u>\$ 14,983,817</u>

During each fiscal year, net investment income (loss) consisted of the following:

	Year Ended September 30,	
	2016	2015
Interest and dividends	\$ 277,924	\$ 254,549
Net realized gains	171,170	523,089
Net unrealized gains (losses)	1,028,210	(1,080,073)
	<u>\$ 1,477,304</u>	<u>\$ (302,435)</u>

ASC Topic 820-10-05 establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for those investments, or similar investments, at the reporting date.

Level 2: Valuations are based on (i) quoted prices for those investments, or similar investments, in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include those investments that are redeemable at or near the balance sheet date and for which a model was derived for valuation.

Level 3: Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued, or (iii) the investments cannot be immediately redeemed at or near the fiscal year-end.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 3 – INVESTMENTS (continued)

Other investments

Other investments are valued at the net asset value (NAV) of units of the entity. The NAV, as provided by the entities, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. The practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily. Were NFFR to initiate a full redemption of the other investments the investment advisor reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

Fair Value of Investments in Entities that Use Net Asset Value

The following table summarizes investments measured at fair value based on net assets value (NAVs) per share:

	As of September 30, 2016			
	Fair Market Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
JP Morgan Intrepid International Fund (1)	\$ 1,141,221	None	None	None
Deutsche X-trackers MSCI EAFE Hedged Equity (2)	1,115,636	None	None	None
	<u>\$ 2,256,857</u>			
	As of September 30, 2015			
	Fair Market Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
JP Morgan Intrepid International Fund (1)	\$ 766,295	None	None	None
	<u>\$ 766,295</u>			

- (1) JP Morgan Intrepid International Fund – The Fund was designed to provide long-term capital growth primarily from a portfolio of foreign equity securities.
- (2) Deutsche X-trackers MSCI EAFE Hedged Equity - The Fund seeks investment results that correspond to the performance of the MSCI EAFE 100% Hedged to USD Index. The underlying index is designed to provide exposure to equity securities in developed international stock markets, while mitigating exposure to fluctuations between U.S. dollar and non-U.S. currencies

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 3 – INVESTMENTS (continued)

The following tables summarize the fair values of NFFR's assets at each fiscal year-end, in accordance with the fair value hierarchy:

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 52,307	\$ -	\$ -	\$ 52,307
Fixed-income securities	-	8,911,457	-	8,911,457
Equity securities	9,122,405	-	-	9,122,405
Alternative investments	-	-	2,256,857	2,256,857
	<u>\$ 9,174,712</u>	<u>\$ 8,911,457</u>	<u>\$ 2,256,857</u>	<u>\$ 20,343,026</u>

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash and short-term investments	\$ 34,322	\$ -	\$ -	\$ 34,322
Fixed-income securities	-	7,289,230	-	7,289,230
Equity securities	6,893,970	-	-	6,893,970
Alternative investments	-	-	766,295	766,295
	<u>\$ 6,928,292</u>	<u>\$ 7,289,230</u>	<u>\$ 766,295</u>	<u>\$ 14,983,817</u>

Level 3 – Gains and Losses

The following table sets forth a summary of changes in the fair value of the Level 3 assets for the years ended September 30, 2016 and 2015:

	Level 3 Asset	
	2016	2015
Balance, beginning of year	\$ 766,295	\$ -
Unrealized gain (loss) relating to instruments still held at the reporting date	776,245	(64,950)
Purchases	732,955	831,245
Sales	(18,638)	-
Balance, end of year	<u>\$ 2,256,857</u>	<u>\$ 766,295</u>

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 4 – PLEDGES RECEIVABLE

At each fiscal year-end, pledges receivable consisted of the following:

	September 30,	
	2016	2015
Gross amounts due in:		
One year	\$ 246,779	\$ 1,872,166
One to five years	30,000	1,532,000
	<u>\$ 276,779</u>	<u>\$ 3,404,166</u>
Discount of pledges due in excess of one year	(185)	(18,446)
	<u>\$ 276,594</u>	<u>\$ 3,385,720</u>

Management considers these receivables to be fully collectible; accordingly, no allowance for uncollectible pledges has been established.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	September 30,	
	2016	2015
Condominium office and improvements	\$ 2,241,860	\$ 2,241,860
Furniture and fixtures	56,581	56,581
Computer equipment	25,403	25,403
	<u>2,323,844</u>	<u>2,323,844</u>
Less accumulated depreciation	(407,397)	(348,179)
	<u>\$ 1,916,447</u>	<u>\$ 1,975,665</u>

Depreciation expense for fiscal years 2016 and 2015 was \$59,218 and \$69,534, respectively.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 6 – GRANTS PAYABLE

During fiscal year 2011, NFFR made a commitment of \$4,000,000 to the New York University Langone Medical Center (“NYULMC”) for a new facility. In fiscal year 2012, an additional grant was made for \$2,500,000 for the Joseph G. McCarthy Professorship for Reconstruction Plastic Surgery of the Face. The Grants payable balance was paid in full in 2016.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	September 30,	
	2016	2015
Patient care	7,795,158	\$ 7,709,933
Endowment asset appreciation	363,317	276,074
	<u>\$ 8,158,475</u>	<u>\$ 7,986,007</u>

Net assets released from restrictions resulting from satisfying the donor restrictions are as follows:

	September 30,	
	2016	2015
Patient Care	<u>\$ 910,129</u>	<u>\$ 782,421</u>

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

NFFR’s permanently restricted net assets consists of three donor–restricted funds established for a variety of purposes.

Return objectives, risk parameters and spending policy:

The Board of Trustees has adopted investment and spending policies for NFFR’s permanently restricted net assets that attempt to maintain the purchasing power of those assets in the future, while being mindful of the cash-flow and liquidity requirements of NFFR. Investment funds are invested in such a way as to help in meeting the future capital and other investments needs of NFFR.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, NFFR seeks to ensure an appropriate diversification of the portfolio by asset class, sector, geographic region, and by investment managers, unless it is prudently determined that, because of special circumstances, the purposes of the investment funds are better served without diversification. Diversification decisions are reviewed at least quarterly.

Changes in restricted net assets during each fiscal year

	Year Ended September 30, 2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets and the earnings thereon, beginning of year	\$ 276,074	\$ 2,400,000	\$ 2,676,074
Investment return:			
Investment income	53,938	-	53,938
Net appreciation (realized and unrealized)	33,305	-	33,305
Total investment gain	87,243	-	87,243
Endowment net assets and the earnings thereon, end of year	\$ 363,317	\$ 2,400,000	\$ 2,763,317
	Year Ended September 30, 2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets and the earnings thereon, beginning of year	\$ 137,763	\$ 2,400,000	\$ 2,537,763
Investment return:			
Investment income	65,573	-	65,573
Net appreciation (realized and unrealized)	72,738	-	72,738
Total investment gain	138,311	-	138,311
Endowment net assets and the earnings thereon, end of year	\$ 276,074	\$ 2,400,000	\$ 2,676,074

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NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS (continued)

Funds with deficiencies:

In the event of unfavorable market fluctuations, from time to time the fair value of assets associated with individual donor-restricted endowment funds may decline below the historic dollar value of the donor's original, permanently restricted contribution. Under the terms of NYPMIFA, NFFR has no responsibility to restore such decrease in value. There were no funds with deficiencies as of September 30, 2016 and 2015.

NOTE 9 – PENSION EXPENSE

NFFR sponsors a defined-contribution, Section 403(b) annuity retirement plan, which covers substantially all employees, in compliance with the Employee Retirement Income Security Act of 1974. NFFR does not make contributions to the plan.

NOTE 10 – DONATED GOODS AND SERVICES

NFFR received donated goods and services in connection with a special event during fiscal years 2016 and 2015. Estimated fair values for amounts received were approximately \$145,000 and \$129,000, respectively. These goods and services are recognized as revenue and corresponding expenses in the accompanying financial statements.

NOTE 11 – CONCENTRATIONS

A. Concentration of Credit Risk

Financial instruments that potentially subject NFFR to concentrations of credit risk consist principally of cash and cash-equivalent amounts deposited in accounts at high-credit-quality financial institutions, the balances of which, from time to time, may exceed Federal Deposit Insurance Corporation ("FDIC") insurance limit amount of \$250,000 per depositor. NFFR had insured cash accounts that exceed FDIC insurance limit for the years ended 2016 and 2015 by approximately \$93,000 and \$386,000, respectively.

B. Concentration of Revenues and Receivables

Included in pledges receivable at September 30, 2015 is a receivable from one donor totaling \$3,000,000 which amount was paid in fiscal 2016.

Included in total contributions and grants in 2016 and 2015 is a bequest of \$1,920,000 and \$600,000, respectively, that was received from an unrelated donor.

NOTE 12 – RELATED PARTY TRANSACTIONS

Four members of NFFR's Board of Trustees are employees of NYULMC. Additionally, a member of NFFR's Board of Trustees is also a partner at the law firm which provided donated legal services as described in Note 10. During fiscal years 2016 and 2015, grants of \$2,489,818 and \$2,203,558, respectively, were made to the Wyss Department of Plastic Surgery at NYULMC.

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NOTE 13 – COMMITMENTS AND CONTINGENCIES

Agencies of the government of the United States have the right to conduct or otherwise require audits of funding they provide to NFFR. Such audits might result in disallowances of costs submitted for reimbursement or other questioned amounts. No amounts have been provided in the accompanying statements for such potential claims. Management believes that, in the event of such audits, any findings would not have a material adverse effect on NFFR's financial position or operations.

NFFR is committed under two non-cancelable operating leases through 2017. In addition, NFFR leases certain equipment under agreements expiring through 2019.

Approximate minimum annual payments remaining on the leases for the years ended after September 30, 2016 are as follows:

	<u>Real Property</u>	<u>Office Equipment</u>	<u>Total</u>
2017	\$ 106,000	\$ 12,000	\$ 118,000
2018		12,000	12,000
2019		4,000	4,000
	<u>\$ 106,000</u>	<u>\$ 28,000</u>	<u>\$ 134,000</u>

Rent expense for office equipment and rental property for the years ended September 30, 2016 and 2015 amounted to approximately \$61,000 and \$47,000, respectively.

NOTE 14 – PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for the year ended September 30, 2015 have been restated to adjust the classification of net assets at October 1, 2015. The result of the restatement decreased "unrestricted net assets" and increased "temporarily restricted net assets" by \$3,000,000. The restatement had no effect on total net assets.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the financial statements through April 14, 2017, the date the financial statements were available to be issued.