

**NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION,
INC.
D/B/A MYFACE**



**Financial Statements
(Together with Independent Auditors' Report)**

September 30, 2018 and 2017

MARKS PANETH

ACCOUNTANTS & ADVISORS

National Foundation for Facial Reconstruction, Inc.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

SEPTEMBER 30, 2018 AND 2017

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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, 2018 and 2017, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NFFR as of September 30, 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.

Marks Paneth LLP

Purchase, NY
May 29, 2019

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

	September 30,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 292,458	\$ 195,383
Investments	20,337,732	20,823,317
Pledges receivable	39,798	48,932
Prepaid expenses and other assets	150,906	49,693
Property and equipment, net of accumulated depreciation	1,798,337	1,857,229
TOTAL ASSETS	\$ 22,619,231	\$ 22,974,554
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 114,676	\$ 131,043
TOTAL LIABILITIES	114,676	131,043
COMMITMENTS AND CONTINGENCIES		
Net Assets		
Unrestricted	15,410,424	13,949,590
Temporarily restricted	4,694,131	6,493,921
Permanently restricted	2,400,000	2,400,000
TOTAL NET ASSETS	22,504,555	22,843,511
TOTAL LIABILITIES AND NET ASSETS	\$ 22,619,231	\$ 22,974,554

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, 2018				For the Year Ended September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
PUBLIC SUPPORT AND REVENUE:								
Contributions and grants	\$ 1,082,880	\$ 260,644	\$ -	\$ 1,343,524	\$ 1,016,065	\$ 155,000	\$ -	\$ 1,171,065
Special events (net of direct benefit costs of \$200,505 in 2018 and \$171,048 in 2017)	354,698	-	-	354,698	300,705	-	-	300,705
Investment income	1,619,967	301,719	-	1,921,686	1,917,287	189,653	-	2,106,940
Donated goods and services	197,788	-	-	197,788	414,052	-	-	414,052
Other income	111	-	-	111	-	-	-	-
 Total public support and revenue before release of restrictions	 3,255,444	 562,363	 -	 3,817,807	 3,648,109	 344,653	 -	 3,992,762
Net assets released from restrictions	2,362,153	(2,362,153)	-	-	2,009,207	(2,009,207)	-	-
 Total public support and revenue	 <u>5,617,597</u>	 <u>(1,799,790)</u>	 <u>-</u>	 <u>3,817,807</u>	 <u>5,657,316</u>	 <u>(1,664,554)</u>	 <u>-</u>	 <u>3,992,762</u>
 EXPENSES:								
Program services	3,189,579	-	-	3,189,579	2,910,394	-	-	2,910,394
Administrative support	419,325	-	-	419,325	841,966	-	-	841,366
Fundraising	547,859	-	-	547,859	251,611	-	-	251,611
 TOTAL EXPENSES	 <u>4,156,763</u>	 <u>-</u>	 <u>-</u>	 <u>4,156,763</u>	 <u>4,003,971</u>	 <u>-</u>	 <u>-</u>	 <u>4,003,971</u>
 CHANGE IN NET ASSETS	 1,460,834	 (1,799,790)	 -	 (338,956)	 1,653,345	 (1,664,554)	 -	 (11,209)
 NET ASSETS - BEGINNING OF YEAR	 <u>13,949,590</u>	 <u>6,493,921</u>	 <u>2,400,000</u>	 <u>22,843,511</u>	 <u>12,296,245</u>	 <u>8,158,475</u>	 <u>2,400,000</u>	 <u>22,854,720</u>
 NET ASSETS - END OF YEAR	 <u>\$ 15,410,424</u>	 <u>\$ 4,694,131</u>	 <u>\$ 2,400,000</u>	 <u>\$ 22,504,555</u>	 <u>\$ 13,949,590</u>	 <u>\$ 6,493,921</u>	 <u>\$ 2,400,000</u>	 <u>\$ 22,843,511</u>

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, 2018				
	Supporting Services			2018 Total Expenses	2017 Total Expenses
	Program Services	Administrative Support	Fundraising		
Salaries and wages	\$ 254,152	\$ 68,167	\$ 297,543	\$ 619,882	\$ 473,041
Payroll taxes and employee benefits	42,268	28,858	49,485	120,611	80,539
Total salaries and related costs	<u>296,420</u>	<u>97,045</u>	<u>347,028</u>	<u>740,493</u>	<u>553,580</u>
Support of the Hansjörg Wyss Department of Plastic Surgery at NYU Langone Health	2,689,235	-	147,529	2,836,764	2,452,462
Office and other expenses	1,899	104,210	7,969	114,078	84,633
Insurance	-	22,040	1,087	23,127	21,443
Depreciation	-	58,892	-	58,892	59,218
Professional fees	4,168	109,105	43,214	156,487	161,619
Equipment rental	-	13,985	-	13,985	64,600
Travel	12,640	4,677	1,032	18,349	9,026
Bad debt expense	-	-	-	-	212,138
SUBTOTAL	<u>3,004,362</u>	<u>409,954</u>	<u>547,859</u>	<u>3,962,175</u>	<u>3,618,719</u>
In-kind expenses:					
Advertising and marketing	60,226	-	-	60,226	147,928
Legal	-	6,465	-	6,465	177,424
Donated goods	124,991	2,906	-	127,897	59,900
In-kind expenses	<u>185,217</u>	<u>9,371</u>	<u>-</u>	<u>194,588</u>	<u>385,252</u>
TOTAL EXPENSES	<u>\$ 3,189,579</u>	<u>\$ 419,325</u>	<u>\$ 547,859</u>	<u>\$ 4,156,763</u>	<u>\$ 4,003,971</u>

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, 2017			2017 Total Expenses
	Program Services	Supporting Services		
		Administrative Support	Fundraising	
Salaries and wages	\$ 209,722	\$ 69,372	\$ 193,947	\$ 473,041
Payroll taxes and employee benefits	33,226	17,211	30,102	80,539
Total salaries and related costs	242,948	86,583	224,049	553,580
Support of the Hansjörg Wyss Department of Plastic Surgery at NYU Langone Health	2,451,838	-	624	2,452,462
Office and other expenses	740	76,850	7,043	84,633
Insurance	-	21,443	-	21,443
Depreciation	-	59,218	-	59,218
Professional fees	420	141,595	19,604	161,619
Equipment rental	-	64,600	-	64,600
Travel	6,620	2,115	291	9,026
Bad debt expense	-	212,138	-	212,138
SUBTOTAL	<u>2,702,566</u>	<u>664,542</u>	<u>251,611</u>	<u>3,618,719</u>
In-kind expenses:				
Advertising and marketing	147,928	-	-	147,928
Legal	-	177,424	-	177,424
Donated goods	59,900	-	-	59,900
In-kind expenses	<u>207,828</u>	<u>177,424</u>	<u>-</u>	<u>385,252</u>
TOTAL EXPENSES	<u>\$ 2,910,394</u>	<u>\$ 841,966</u>	<u>\$ 251,611</u>	<u>\$ 4,003,971</u>

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

**NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
STATEMENTS OF CASH FLOWS**

	Years Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets:	\$ (338,956)	\$ (11,209)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	58,892	59,218
Bad debt expense	-	212,138
Realized and unrealized gain on investments	(1,564,466)	(1,734,278)
Changes in operating assets and liabilities:		
Pledges receivable	9,134	15,524
Prepaid expenses and other assets	(101,213)	190,258
Accounts payable and accrued expenses	(16,367)	39,329
Net Cash Used in Operating Activities	(1,952,976)	(1,229,020)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,351,905)	(569,932)
Proceeds from sale of investments	4,401,956	1,823,919
Net Cash Provided by Investing Activities	2,050,051	1,253,987
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,075	24,967
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	195,383	170,416
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 292,458	\$ 195,383

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

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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 differences and their families. With a special focus on children, myFace funds medical, surgical, dental, speech 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 statements 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.

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.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018 and 2017, 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 revenues and expenses 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 differences and from low-income families. These low-income families either have no health insurance or limited government-aided insurance, resulting in slight to no reimbursement. During fiscal years 2018 and 2017, NFFR coordinated approximately \$1.47 million and \$1.50 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.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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 date 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. 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.

J. Income Taxes

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

K. Reclassification

Certain items in the September 30, 2017 financial statements have been reclassified to conform to the September 30, 2018 presentation. These classifications had no impact on the change in net assets for the year ended September 30, 2018.

NOTE 3 – INVESTMENTS

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

	September 30,			
	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 1,063,229	\$ 1,063,229	\$ 312,358	\$ 312,358
Fixed-income securities	8,050,609	7,750,543	8,655,194	8,593,072
Equity securities	6,281,551	9,334,230	7,626,178	9,513,976
Alternative investments	1,954,283	2,189,730	2,150,122	2,403,911
	<u>\$ 17,349,672</u>	<u>\$ 20,337,732</u>	<u>\$ 18,743,852</u>	<u>\$ 20,823,317</u>

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

NOTE 3 – INVESTMENTS (CONTINUED)

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

	Year Ended September 30,	
	2018	2017
Interest and dividends	\$ 357,220	\$ 372,662
Net realized gains	690,856	480,441
Net unrealized gains	873,610	1,253,837
	\$ 1,921,686	\$ 2,106,940

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 based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

NOTE 3 – INVESTMENTS (CONTINUED)

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, 2018			
	Fair Market Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
JP Morgan Intrepid International Fund (1)	\$ 1,065,430	None	None	None
Deutsche X-trackers MSCI EAFE Hedged Equity (2)	1,124,300	None	None	None
	<u>\$ 2,189,730</u>			

	As of September 30, 2017			
	Fair Market Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
JP Morgan Intrepid International Fund (1)	\$ 1,223,296	None	None	None
Deutsche X-trackers MSCI EAFE Hedged Equity (2)	1,180,615	None	None	None
	<u>\$ 2,403,911</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 the U.S. dollar and non-U.S. currencies.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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, 2018			Total
	Level 1	Level 2	Level 3	
Cash and short-term investments	\$ 1,063,229	\$ -	\$ -	\$ 1,063,229
Fixed-income securities	-	7,750,543	-	7,750,543
Equity securities	9,334,230	-	-	9,334,230
Investments measured at fair value	10,397,459	7,750,543	-	18,148,002
Investments measured at NAV as a practical expedient				2,189,730
Total assets at fair value				<u>\$ 20,337,732</u>

	September 30, 2017			Total
	Level 1	Level 2	Level 3	
Cash and short-term investments	\$ 312,358	\$ -	\$ -	\$ 312,358
Fixed-income securities	-	8,593,072	-	8,593,072
Equity securities	9,513,976	-	-	9,513,976
Investments measured at fair value	9,826,334	8,593,072	-	18,419,406
Investments measured at NAV as a practical expedient				2,403,911
Total assets at fair value				<u>\$ 20,823,317</u>

NOTE 4 – PLEDGES RECEIVABLE

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

	September 30,	
	2018	2017
Gross amounts due in:		
One year	<u>\$ 39,798</u>	<u>\$ 48,932</u>

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

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	September 30,	
	2018	2017
Condominium office and improvements	\$ 2,241,860	\$ 2,241,860
Furniture and fixtures	56,581	56,581
Computer equipment	25,403	25,403
	2,323,844	2,323,844
Less: accumulated depreciation	(525,507)	(466,615)
	\$ 1,798,337	\$ 1,857,229

Depreciation expense for fiscal years 2018 and 2017 was \$58,892 and \$59,218, respectively.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	September 30,	
	2018	2017
Patient care	\$ 3,840,577	\$ 5,942,086
Investment net assets appreciation	853,554	551,835
	\$ 4,694,131	\$ 6,493,921

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

	September 30,	
	2018	2017
Patient Care	\$ 2,362,153	\$ 2,009,207

NFFR's permanently restricted net assets consist 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 investment needs of NFFR.

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

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, 2018		
	Temporarily Restricted	Permanently Restricted	Total
Investment net assets and the earnings thereon, beginning of year	\$ 551,835	\$ 2,400,000	\$ 2,951,835
Investment return:			
Investment income	64,414	-	64,414
Net appreciation (realized and unrealized)	237,305	-	237,305
Total investment gain	301,719	-	301,719
Amount appropriated to Operations	-	-	-
Investment net assets and the earnings thereon, end of year	<u>\$ 853,554</u>	<u>\$ 2,400,000</u>	<u>\$ 3,253,554</u>
	Year Ended September 30, 2017		
	Temporarily Restricted	Permanently Restricted	Total
Investment net assets and the earnings thereon, beginning of year	\$ 363,317	\$ 2,400,000	\$ 2,763,317
Investment return:			
Investment income	63,756	-	63,756
Net appreciation (realized and unrealized)	125,897	-	125,897
Total investment gain	189,653	-	189,653
Amount appropriated to Operations	(1,135)	-	(1,135)
Investment net assets and the earnings thereon, end of year	<u>\$ 551,835</u>	<u>\$ 2,400,000</u>	<u>\$ 2,951,835</u>

NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

NFFR recognizes that New York State adopted as law the New York Prudent Management of Institutional Funds Act ("NYPMIFA") on September 17, 2010. NYPMIFA replaced the prior law which was the Uniform Management of Institutional Funds Act ("UMIFA"). In addition, NYPMIFA created a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund's fair value (averaged over a period of not less than the preceding five years) in any year. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected as temporarily restricted until appropriated.

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. NFFR's Board has interpreted NYPMIFA as allowing NFFR to appropriate for expenditure or accumulate so much of an endowment fund as NFFR determines to be prudent for the uses, benefits, purposes and duration for which the endowment was established, subject to the intent to the donor as expressed in the gift instrument.

NOTE 8 – PENSION EXPENSE

NFFR sponsors a 401(k) savings plan, which covers all eligible employees, in compliance with the Employee Retirement Income Security Act of 1974. The Plan provides for NFFR to match an employee's contribution up to a maximum amount of three percent (3%) of the employee's compensation.

NOTE 9 – DONATED GOODS AND SERVICES

NFFR received donated goods and services in connection with a special event during fiscal years 2018 and 2017. Estimated fair values for amounts received were approximately \$188,000 and \$208,000, respectively. During fiscal years 2018 and 2017, NFFR received donated legal services, for various initiatives, of approximately \$6,500 and \$177,000, respectively. These goods and services are recognized as revenue and corresponding expenses in the accompanying financial statements.

NOTE 10 – 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 the Federal Deposit Insurance Corporation ("FDIC") insurance limit amount of \$250,000 per depositor. NFFR had insured cash accounts that exceed the FDIC insurance limit for the years ended 2018 and 2017 by approximately \$60,000 and \$-0-, respectively.

B. Concentration of Revenues and Receivables

Included in total contributions and grants in 2018 and 2017 is a bequest of \$21,000 and \$105,000, respectively, that was received from an unrelated donor.

NOTE 11 – RELATED PARTY - TRANSACTIONS

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 9.

**NATIONAL FOUNDATION FOR FACIAL RECONSTRUCTION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

NOTE 12 – COMMITMENTS AND CONTINGENCIES

NFFR is committed under two non-cancelable operating leases through 2018. In addition, NFFR leases certain equipment under agreements expiring through 2020.

Approximate minimum annual payments remaining on the leases for the years ending after September 30, 2018 are as follows:

	Rental Property	Office Equipment	Total
2019	\$ 104,000	\$ 4,000	\$ 108,000
2020	74,000	-	74,000
	\$ 178,000	\$ 4,000	\$ 182,000

The expense for rental property and office equipment for the years ended September 30, 2018 and 2017 amounted to approximately \$155,000 and \$171,000, respectively.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events and transactions that occurred subsequent to the date of the financial position through May 29, 2019, the date the financial statements were available to be issued.