



**BrightFocus™
Foundation**

Cure in Mind. Cure in Sight.

Consolidated Financial Statements

For the Year Ended March 31, 2018

(With Summarized Financial Information for the Year Ended March 31, 2017)



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
BrightFocus Foundation and Subsidiaries

We have audited the accompanying consolidated financial statements of BrightFocus Foundation and Subsidiaries, which comprise the consolidated statement of financial position as of March 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of BrightFocus Foundation and Subsidiaries as of March 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Other Matter*Report on Summarized Comparative Information*

We have previously audited BrightFocus Foundation's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated June 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Raffa, P.C.

Raffa, P.C.

Washington, DC

June 27, 2018

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
March 31, 2018
(With Summarized Financial Information as of March 31, 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,635,346	\$ 1,594,850
Short-term investments	239,243	326,842
Pledges receivable, current portion	200,000	125,000
Charitable remainder and lead trusts, current portion	370,000	350,000
Bequests receivable	1,271,639	2,668,981
Prepaid expenses and other current assets	351,394	361,267
Total Current Assets	5,067,622	5,426,940
Investments	36,209,403	33,861,934
Pledges receivable, net of current portion	57,279	120,192
Charitable remainder and lead trusts, net of current portion	2,433,062	2,493,515
Property and equipment, net	4,148,105	4,512,610
Rental property	3,844,488	3,886,267
Other assets	834,514	636,333
TOTAL ASSETS	\$ 52,594,473	\$ 50,937,791
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 389,385	\$ 319,998
Deferred revenue	109,250	-
Research grants payable, current portion	7,500,554	6,548,859
Charitable gift annuities, current portion	177,846	186,068
Total Current Liabilities	8,177,035	7,054,925
Research grants payable, net of current portion	11,354,207	10,871,611
Charitable gift annuities, net of current portion	1,003,574	1,090,549
Other liabilities	191,165	225,371
TOTAL LIABILITIES	20,725,981	19,242,456
Net Assets		
Unrestricted	19,576,833	18,011,943
Temporarily restricted	11,971,659	13,593,392
Permanently restricted	320,000	90,000
TOTAL NET ASSETS	31,868,492	31,695,335
TOTAL LIABILITIES AND NET ASSETS	\$ 52,594,473	\$ 50,937,791

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

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2018
(With Summarized Financial Information for the Year Ended March 31, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
REVENUE AND SUPPORT					
Contributions and grants	\$ 131,313	\$ 28,111,571	\$ -	\$ 28,242,884	\$ 24,313,175
Donated goods and services	-	13,658,057	-	13,658,057	15,795,314
Bequests	166,243	3,531,749	230,000	3,927,992	6,249,958
Net investment income	2,199,213	-	-	2,199,213	2,883,182
Rental income, net of expenses	-	610,038	-	610,038	566,749
Other	-	700,358	-	700,358	335,996
Special events	202,260	15,261	-	217,521	154,374
Less: cost of direct benefit to attendees	(213,654)	-	-	(213,654)	(260,426)
Net special events	(11,394)	15,261	-	3,867	(106,052)
Net assets released from restrictions:					
Satisfaction of program restrictions	48,248,767	(48,248,767)	-	-	-
TOTAL REVENUE AND SUPPORT	50,734,142	(1,621,733)	230,000	49,342,409	50,038,322
EXPENSES					
Program Services:					
Health Information Services	21,824,131	-	-	21,824,131	23,015,771
Research	16,918,809	-	-	16,918,809	16,887,958
Total Program Services	38,742,940	-	-	38,742,940	39,903,729
Supporting Services:					
Fundraising	7,095,464	-	-	7,095,464	6,339,388
Management and general	3,330,848	-	-	3,330,848	2,960,151
Total Supporting Services	10,426,312	-	-	10,426,312	9,299,539
TOTAL EXPENSES	49,169,252	-	-	49,169,252	49,203,268
CHANGE IN NET ASSETS	1,564,890	(1,621,733)	230,000	173,157	835,054
NET ASSETS, BEGINNING OF YEAR	18,011,943	13,593,392	90,000	31,695,335	30,860,281
NET ASSETS, END OF YEAR	\$ 19,576,833	\$ 11,971,659	\$ 320,000	\$ 31,868,492	\$ 31,695,335

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

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended March 31, 2018

(With Summarized Financial Information for the Year Ended March 31, 2017)

	Program Services			Supporting Services			2018 Total	2017 Total
	Health Information Services	Research	Total Program Services	Fundraising	Management and General	Total Supporting Services		
Printing, publications and media	\$ 15,483,024	\$ 98,929	\$ 15,581,953	\$ 1,649,111	\$ 274,374	\$ 1,923,485	\$ 17,505,438	\$ 19,254,117
Grants	80,000	13,272,994	13,352,994	-	-	-	13,352,994	13,305,838
Postage and delivery	2,818,419	26,233	2,844,652	2,344,512	434,638	2,779,150	5,623,802	5,129,400
Salaries and related expenses	804,942	2,004,862	2,809,804	761,000	1,465,272	2,226,272	5,036,076	4,687,020
Computer and mailing services	1,026,333	288,681	1,315,014	825,475	252,249	1,077,724	2,392,738	2,015,837
Professional fees	644,403	379,540	1,023,943	725,828	188,225	914,053	1,937,996	1,744,153
Mailing list rental	646,675	-	646,675	554,934	78,355	633,289	1,279,964	1,125,012
Travel, meetings and symposia	68,137	320,822	388,959	65,921	69,048	134,969	523,928	556,794
Depreciation and amortization	98,357	195,976	294,333	68,293	196,606	264,899	559,232	516,577
Occupancy and utilities	82,241	164,051	246,292	43,651	135,547	179,198	425,490	449,573
Office-related expenses	71,600	166,721	238,321	56,739	236,534	293,273	531,594	418,947
TOTAL EXPENSES	\$ 21,824,131	\$ 16,918,809	\$ 38,742,940	\$ 7,095,464	\$ 3,330,848	\$ 10,426,312	\$ 49,169,252	\$ 49,203,268

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

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2018

(With Summarized Financial Information for the Year Ended March 31, 2017)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 173,157	\$ 835,054
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	559,232	516,577
Realized gains on investments	(1,186,607)	(709,002)
Unrealized gains on investments	(599,410)	(1,678,977)
Change in value of charitable remainder and lead trusts	40,453	(133,860)
Change in present value of gift annuity liabilities	18,108	9,975
Changes in assets and liabilities:		
Pledges receivable	(12,087)	117,270
Bequests receivable	1,397,342	190,451
Prepaid expenses and other current assets	9,873	(124,008)
Other assets	(198,181)	31,820
Accounts payable and accrued expenses	101,088	(547,753)
Deferred revenue	109,250	-
Research grants payable	1,434,291	(2,752,384)
Other liabilities	(34,206)	27,448
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,812,303</u>	<u>(4,217,389)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	13,430,888	9,776,297
Purchases of investments	(13,904,741)	(8,108,913)
Purchases of property and equipment	(137,225)	(157,698)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(611,078)</u>	<u>1,509,686</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions invested for gift annuity purposes	70,000	185,000
Payments to charitable gift annuitants	(183,305)	(184,900)
Payments on capital lease obligations	(47,424)	(47,321)
NET CASH USED IN FINANCING ACTIVITIES	<u>(160,729)</u>	<u>(47,221)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,040,496	(2,754,924)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,594,850</u>	<u>4,349,774</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,635,346</u>	<u>\$ 1,594,850</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Equipment acquired under a capital lease	\$ 15,723	\$ 137,000
Capital lease obligation	(15,723)	(137,000)
Net cash outlay	<u>\$ -</u>	<u>\$ -</u>

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

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2018

1. Organization and Summary of Significant Accounting Policies

Organization

BrightFocus Foundation is a not-for-profit organization that was incorporated in the District of Columbia in 1973 under the name American Health Assistance Foundation. The name, BrightFocus Foundation with the associated tagline, "Cure in Mind. Cure in Sight.", was chosen in 2013 to better communicate the organization's renewed and urgent mission to drive innovative research worldwide and promote awareness of Alzheimer's disease, macular degeneration and glaucoma.

BrightFocus Foundation's Health Information Services and Research programs are funded primarily by contributions and grants from individuals which are used for the three core programs: Alzheimer's Disease Research, Macular Degeneration Research and National Glaucoma Research.

National Development, LLC (NDLLC) is a limited liability company created by BrightFocus Foundation and incorporated in Maryland in 1999. NDLLC was organized to acquire, own, invest in, develop, hold, operate, manage, lease, sell, mortgage and/or levy property, including the construction and operation of a commercial building on land donated to the BrightFocus Foundation.

American Health Assistance, LLC (AHALLC) is a limited liability company created by the BrightFocus Foundation and incorporated in Maryland in 2000. AHALLC owns the land and building on the property where BrightFocus Foundation is located. AHALLC was organized to operate the building on the property.

Principles of Consolidation

The consolidated financial statements include BrightFocus Foundation and its wholly-owned subsidiaries, NDLLC and AHALLC (collectively referred to as BrightFocus). All significant intercompany balances and transactions have been eliminated in consolidation.

Cash Equivalents

BrightFocus considers money market funds, other than those held for investment purposes, to be cash equivalents.

Investments

Investments are measured at fair value and are composed of money market funds, equity and fixed-income mutual funds and exchange-traded funds, corporate bonds, domestic marketable equity securities, government-sponsored entity bonds, mortgage and asset-backed securities, a hedge fund and structured notes. Fair value is 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. The estimated fair value of alternative investments is based on net asset value (NAV), which is estimated by the administrator, external investment manager or managing director, and is not necessarily indicative of the amount that the funds could realize

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Investments (continued)

in a current transaction. Because of the inherent uncertainty of valuation for these alternative investments, values for these investments may differ significantly from the value that would have been used had a ready market for the investments existed. Future confirming events will also affect the estimates of fair value, including the ultimate liquidation of the investments.

Unrealized gains or losses on investments are determined by the change in fair value at the beginning and end of the reporting period and included in investment income in the accompanying consolidated statement of activities. Realized gains and losses on sales of investments are computed on an average cost method and are recorded on the trade date of the transaction and included in investment income in the accompanying consolidated statement of activities.

Impairment of Long-Lived Assets

BrightFocus reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no impairment losses recognized for the year ended March 31, 2018.

Property and Equipment and Related Depreciation and Amortization

Property and equipment include the land and building where BrightFocus is located, as well as other property and equipment, and is stated at cost. The building of BrightFocus is being depreciated using the straight-line method over an estimated useful life of 39 years. Office furniture and equipment, automobile, and computer equipment and software are being depreciated using the straight-line method over useful lives of three to five years. Capitalized leased assets are stated at the net present value of future minimum lease payments and are amortized using the straight-line method over the life of the lease. BrightFocus capitalizes property and equipment with a cost of \$2,000 or more. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of the assets, the cost and accumulated depreciation and amortization are eliminated from the respective accounts and the resulting gain or loss is included in revenue and support or expenses.

Rental Property

Rental property consists of land located in Norfolk, Virginia, that was donated to BrightFocus in June 1999 on which there are long-term ground leases and a building received from a tenant by default of lease terms in March 2002. The property cannot be sold until 2023, and the net proceeds from rents and any future sales are restricted to the National Glaucoma Research program. The land was recorded based on its appraised value at the date of donation. The building was recorded at fair value on the date title was assumed and is being depreciated using the straight-line method over an estimated useful life of 39 years.

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Research Grants

Research grants are recognized as expenses when the Board of Directors awards the grant and determines that it is probable that the grant will be fully funded. Grants awarded by the Board of Directors are often paid over several years. Amounts awarded but unpaid as of the end of the fiscal year are accrued as research grants payable in the accompanying consolidated financial statements.

Fair Value Measurement

In accordance with the accounting standards for fair value measurement for those assets and liabilities that are measured at fair value on a recurring basis, BrightFocus has categorized its applicable financial instruments into a required fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant assumptions are developed based on market data obtained from independent sources, or unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs based on quoted prices in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As permitted under the accounting standards on fair value measurement, BrightFocus has elected to use NAV or its equivalent, as provided by the fund, to estimate the fair value of investments under the pronouncement's scope.

The assets and liabilities of BrightFocus measured at fair value on a recurring basis are presented in Note 12.

Classification of Net Assets

The net assets of BrightFocus are classified as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of general operations.
- Temporarily restricted net assets represent amounts received with donor or grantor stipulations that limit the use of the donated funds or assets to a particular purpose or for specific periods.
- Permanently restricted net assets represent contributions to be held in perpetuity, as directed by the original donor. The income from these contributions is primarily available to support the activities of BrightFocus, as designated by the original donor.

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2018**

1. Organization and Summary of Significant Accounting Policies (continued)

Donated Goods and Services

Donated goods and services represent the value of donated public service announcements and are recorded as contributions at their estimated fair value as of the date of donation.

Revenue Recognition

Contributions and grants are recorded as revenue and support when received or unconditionally promised. Wills are recorded as bequests revenue when the probate courts declare the wills valid and the proceeds are measurable. In cases in which a will's approval is required by state government authorities, bequests revenue is recognized after final approval. Irrevocable split-interest agreements, including charitable remainder trusts, charitable lead trusts and perpetual trusts, are recorded as revenue and support when the trust agreements are executed. Revenue from split-interest agreements is based on the present value of the expected cash flows to be received by BrightFocus.

BrightFocus reports gifts of cash and other assets as temporarily restricted revenue and support if they are received with donor stipulations that limit the use of the donated assets to one of the three programs of BrightFocus. When a donor restriction expires, that is, when the purpose of the restriction is accomplished or when a stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Special events revenue is recognized in the period in which the event takes place.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Where both program and fundraising materials are developed, printed and mailed jointly, management allocates a portion of the related costs among Health Information Services, Research, management and general, and fundraising expenses.

The programs and supporting services are described as follows:

Health Information Services – Expenses incurred to further the vision of BrightFocus of living free from diseases of mind and sight through educating the general population about potential causes, treatments, preventions, and cures and encouraging the public to participate in the program outreach of BrightFocus which includes the following:

Risk Factors and Symptom Recognition – Establishing and increasing public awareness of the risk factors and symptoms of diseases affecting mind and sight, and the actions the public can or should take to reduce risk and in response to such symptoms.

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses (continued)

Lifestyle Choices – Establishing and increasing public awareness of lifestyle choices that promote good health and the actions that the public can or should take to reduce the likelihood of the onset of diseases affecting mind and sight.

Societal Information and Managing the Diseases – Increasing public awareness of current preventative measures, research and treatments which may reduce the risks and control diseases affecting mind and sight. In addition, increasing public awareness of the actions that can be taken to assist victims of diseases affecting mind and sight, their families and their caregivers.

Research – Expenses incurred to facilitate research and investigation seeking causes, treatment and cures of diseases affecting mind and sight.

Fundraising – Expenses incurred for the purpose of raising funds.

Management and general – All other operating expenses incurred by BrightFocus in the accomplishment of its tax-exempt purposes.

Estimates

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

2. Investments

Investments consisted of the following as of March 31, 2018:

Short-term investments:	
Money market funds	<u>\$ 239,243</u>
Long-term investments:	
Equity mutual funds	11,968,640
Corporate bonds	5,632,886
Alternative investments – hedge fund	4,854,970
Structured notes	4,587,131
Domestic marketable equity securities	2,948,701
Fixed-income mutual funds	3,189,273
Government-sponsored entity bonds	1,552,012
Mortgage and asset-backed securities	415,626
Fixed-income exchange-traded fund	286,175
Equity exchange-traded fund	<u>773,989</u>
Total Long-Term Investments	<u>36,209,403</u>
Total Investments	<u>\$ 36,448,646</u>

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2018

2. Investments (continued)

A summary of investment income is as follows for the year ended March 31, 2018:

Unrealized gains, net	\$ 599,410
Interest and dividends	667,662
Realized gains, net	1,186,607
Management fees	<u>(254,466)</u>
Investment Income, Net	<u>\$ 2,199,213</u>

3. Pledges Receivable

Pledges receivable represent unconditional promises to give and are recorded at net realizable value. As of March 31, 2018, pledges receivable totaled \$257,279. Of the total pledges receivable, \$200,000 were expected to be received by BrightFocus within the next year, with the remaining balance of \$57,279 (net of the present value discount of \$2,721) payable within the following year. The average discount rate was 4.75%.

4. Bequests and Trusts Receivable

As of March 31, 2018, bequests receivable totaled \$1,271,639 and consisted of unconditional wills and trusts. All amounts are expected to be collected within a year.

Charitable lead and remainder trust agreements, which are irrevocable, are administered by a trustee or fiscal agent. Distributions are to be made to BrightFocus (lead trusts) or to the donor's designee (remainder trusts) during the terms of the agreements, which vary in length up to an estimated maximum of 13 years from March 31, 2018. At the end of the terms, a portion of the remaining trust assets, as defined in the trust agreements, are to be distributed to BrightFocus. The expected future cash inflows from the trusts have been recorded at present value based on a discount rate of 4.75%, resulting in a total receivable of \$2,803,062. For the year ended March 31, 2018, the change in value of these split-interest agreements resulted in a gain of \$311,937, primarily due to the increase in the fair value of the investments, and this gain is included in bequests revenue in the accompanying consolidated statement of activities. BrightFocus is also the recipient of beneficial interests in portions of two trusts for which the principal must remain intact in perpetuity and only the earnings are to be spent. The value of the trusts is \$320,000, which is included in other assets in the accompanying consolidated statement of financial position.

As of March 31, 2018, bequests and trusts were expected to be received as follows:

Less than one year	\$ 1,641,639
One to five years	2,028,423
More than five years	<u>864,727</u>
Total Bequests and Trusts Receivable	4,534,789
Less: Discount to Net Present Value	<u>(460,088)</u>
Bequests and Trusts Receivable, Net	<u>\$ 4,074,701</u>

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2018

4. Bequests and Trusts Receivable (continued)

In addition, as of March 31, 2018, BrightFocus was aware of approximately \$89,000 of wills and trusts which, as of the end of the fiscal year, had not been final-approved by state authorities or had other unmet conditions, and are therefore not recognized as receivables or revenue in the accompanying consolidated financial statements.

5. Property and Equipment

Property and equipment was as follows as of March 31, 2018:

Land	\$ 1,147,363
Buildings	5,025,641
Computer equipment and software	797,699
Office equipment	376,448
Office furniture	193,853
Automobile	<u>14,163</u>
Total Property and Equipment	7,555,167
Less: Accumulated Depreciation and Amortization	<u>(3,407,062)</u>
Property and Equipment, Net	<u>\$ 4,148,105</u>

Depreciation and amortization expense totaled \$559,232 for the year ended March 31, 2018.

6. Rental Property

Rental property consists of land located in Norfolk, Virginia, that was donated to BrightFocus in June 1999. The land was valued at \$2,800,000 at the time of donation and includes buildings and triple-net ground leases for commercial space to various third parties. The terms of the lease agreements extend up to 75 years, including renewal options. The buildings located on the leased properties will become the property of BrightFocus at the end of the leases. The rental property includes a building obtained by a default on a lease in 2002, which had a value of \$1,629,400 at the time of default with accumulated depreciation of \$584,912 as of March 31, 2018. Rental income earned, net of associated expenses, totaled \$610,038 for the year ended March 31, 2018. Under GAAP, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between the income recognized and cash flow from the rental payments is reflected as deferred rent receivable, which totaled \$514,514 as of March 31, 2018, and is included in other assets in the accompanying consolidated statement of financial position.

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2018

6. Rental Property (continued)

As of March 31, 2018, the future minimum rentals were as follows:

<u>For the Year Ending</u> <u>March 31,</u>	
2019	\$ 667,560
2020	651,910
2021	652,125
2022	652,344
2023	652,568
Thereafter	<u>569,043</u>
Total	<u>\$ 3,845,550</u>

7. Research Grants

BrightFocus awards annual research grants that cover periods of one to three fiscal years. As of March 31, 2018, \$18,854,761 was payable for research grants that had been awarded by the Board of Directors. Of the total grants payable, \$7,500,554 had been scheduled for payment by BrightFocus within the next year, with the remaining balance of \$11,354,207 (net of the present value discount of \$244,965) payable within one to five years. The average discount rate used was 2.25%.

8. Charitable Gift Annuities

BrightFocus has charitable gift annuity agreements with individuals. Under the terms of the agreements, BrightFocus receives cash, which can be donor-designated for one of three disease-related programs, in exchange for a survivor annuity agreement. BrightFocus is obligated to make monthly, quarterly, semi-annual or annual payments for each individual's lifetime. BrightFocus records the liability at the present value of the expected future cash flows based on the donor's life expectancy.

As of March 31, 2018, the present value of the annuity payments totaled \$1,181,420, which was based on various life expectancies and had an expected rate of return of 1.1% to 8%. Of the total annuity liability, \$177,846 was scheduled for payment within the next year, with the remaining balance of \$1,003,574 payable in subsequent years. The liability is funded by investments of BrightFocus. In addition, various state laws require BrightFocus to maintain additional reserves for the charitable annuities. As of March 31, 2018, BrightFocus had \$1,985,064 in segregated accounts invested in equity and fixed-income mutual funds, corporate bonds and money market funds for the payment of these liabilities, which includes the additional reserves required by the various state laws.

During the year ended March 31, 2018, BrightFocus received \$70,000 in gift annuities.

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BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2018

9. Capital Leases

BrightFocus is obligated under capital leases for various kinds of equipment. The capital leases expire at various dates through September 2019. The leased equipment is included in property and equipment at a cost of \$244,078 and accumulated amortization of \$89,522 as of March 31, 2018.

The future minimum lease payments required for the capital leases were as follows at March 31, 2018:

<u>For the Year Ending March 31,</u>	
2019	\$ 59,065
2020	48,933
2021	34,658
2022	34,658
2023	<u>3,641</u>
Subtotal	180,955
Less: Amount Representing Interest	<u>(19,307)</u>
Present Value of Net Minimum Capital Lease Payments	<u>\$ 161,648</u>

The current portion of the lease obligations is included in accounts payable and accrued expenses, with the remainder in other liabilities, in the accompanying consolidated statement of financial position.

10. Net Assets

Temporarily Restricted

Certain temporarily restricted net assets are available for use among the three disease-related programs of BrightFocus based on specific donor restrictions. The temporarily restricted net assets were available for the following purposes and time period as of March 31, 2018:

National Glaucoma Research	\$ 3,976,828
Macular Degeneration Research	4,387,060
Alzheimer's Disease Research	3,534,438
Time-restricted – 2019	<u>73,333</u>
Total Temporarily Restricted Net Assets	<u>\$ 11,971,659</u>

Permanently Restricted

BrightFocus has recorded \$320,000 that consist of shares of two perpetual trusts which are included in other assets in the accompanying consolidated statement of financial position. The perpetual trusts are held as permanent endowments. The earnings on these endowments are available for Alzheimer's Disease Research programs and are recorded as temporarily restricted investment income and released as spent.

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2018

11. Program Activities

For the year ended March 31, 2018, BrightFocus had expenditures for the following disease-related purposes in its two program activities, Health Information Services and Research:

	<u>Health Information Services</u>	<u>Research</u>	<u>Total</u>
Alzheimer's Disease Research	\$ 7,651,515	\$ 11,515,351	\$ 19,166,866
Macular Degeneration Research	7,841,766	3,223,144	11,064,910
National Glaucoma Research	<u>6,330,850</u>	<u>2,180,314</u>	<u>8,511,164</u>
Total Program Services	<u>\$21,824,131</u>	<u>\$16,918,809</u>	<u>\$38,742,940</u>

12. Fair Value Measurement

The following table summarizes the assets of BrightFocus measured at fair value on a recurring basis as of March 31, 2018:

<u>Assets</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Charitable remainder and lead trusts	\$ 2,803,062	\$ -	\$ -	\$ 2,803,062
Perpetual trusts	<u>320,000</u>	<u>-</u>	<u>-</u>	<u>320,000</u>
Investments:				
Money market funds	<u>239,243</u>	<u>239,243</u>	<u>-</u>	<u>-</u>
Equity mutual funds:				
Real estate fund	848,373	848,373	-	-
Large cap blend	<u>11,120,267</u>	<u>11,120,267</u>	<u>-</u>	<u>-</u>
Total Equity Mutual Funds	<u>11,968,640</u>	<u>11,968,640</u>	<u>-</u>	<u>-</u>
Fixed-income mutual funds	<u>3,189,273</u>	<u>3,189,273</u>	<u>-</u>	<u>-</u>
Fixed-income exchange-traded fund	<u>286,175</u>	<u>286,175</u>	<u>-</u>	<u>-</u>
Equity exchange-traded fund	<u>773,989</u>	<u>773,989</u>	<u>-</u>	<u>-</u>
Corporate bonds	<u>5,632,886</u>	<u>-</u>	<u>5,632,886</u>	<u>-</u>

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2018

12. Fair Value Measurement (continued)

<i>(Continued)</i> Assets	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments (continued):				
Domestic marketable equity securities:				
Consumer staples	\$ 56,724	\$ 56,724	\$ -	\$ -
Information technology	717,762	717,762	-	-
Consumer discretionary	657,121	657,121	-	-
Health care	385,233	385,233	-	-
Industrial	286,592	286,592	-	-
Financial	379,218	379,218	-	-
Energy and utilities	218,511	218,511	-	-
Materials	209,010	209,010	-	-
Real estate	<u>38,530</u>	<u>38,530</u>	-	-
Total Domestic Marketable Equity Securities	<u>2,948,701</u>	<u>2,948,701</u>	<u>-</u>	<u>-</u>
Government-sponsored entity bonds	<u>1,552,012</u>	<u>-</u>	<u>1,552,012</u>	<u>-</u>
Mortgage and asset- backed securities	<u>415,626</u>	<u>-</u>	<u>415,626</u>	<u>-</u>
Structured notes	<u>4,587,131</u>	<u>-</u>	<u>4,587,131</u>	<u>-</u>
Total Investments in the Fair Value Hierarchy	<u>31,593,676</u>	<u>19,406,021</u>	<u>12,187,655</u>	<u>-</u>
Alternative investments – hedge fund:				
Fund of funds – multi- strategy ^(a)	<u>4,854,970</u>			
Total Investments	<u>36,448,646</u>			
Total Assets	<u>\$ 39,571,708</u>	<u>\$ 19,406,021</u>	<u>\$ 12,187,655</u>	<u>\$ 3,123,062</u>

(a) This investment is measured at NAV or its equivalent as a practical expedient and has not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

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BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2018

12. Fair Value Measurement (continued)

BrightFocus uses NAV or its equivalent to determine the fair value of certain investments. The table below details the ability of BrightFocus to redeem investment funds valued at NAV or its equivalent as of March 31, 2018.

<u>Type of Hedge Fund</u>	<u>Number of Funds</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, If Currently Eligible</u>	<u>Redemption Notice Period</u>
Fund of funds – multi-strategy	1	<u>\$4,854,970</u>	<u>\$ -</u>	Quarterly	91 Days

The hedge fund is a multi-advisor, multi-strategy fund of funds employing opportunities strategy investing in 23 leading hedge funds diversified across sectors, strategies and geographies. The fund offers concentrated exposure in a multi-strategy format and targets a low beta and correlation to equity and fixed-income markets over a full market cycle.

13. Donated Goods and Services

Radio and televised public service announcement airtime has been donated to BrightFocus to educate the general public about potential causes, treatments, prevention and cures of diseases affecting mind and sight and encouraging the public to participate in BrightFocus program outreach. The fair value of the public service announcements totaled \$13,658,057 for the year ended March 31, 2018, and is included in donated goods and services revenue in the accompanying consolidated statement of activities and in printing, publications and media expenses for the Health Information Services program in the accompanying consolidated statement of functional expenses. Public service announcements are valued based on the number of times the announcements are played and the period in which the advertisements are aired at the television or radio station's equivalent advertising rate charged to paying customers.

14. Allocation of Joint Costs

BrightFocus conducts direct mail programs that include fundraising appeals and education materials on diseases affecting mind and sight. In addition, the direct mail programs encourage the public to make lifestyle choices to reduce the likelihood of the onset of diseases affecting mind and sight, and to take action to assist others who are affected by these diseases. For the year ended March 31, 2018, these activities included joint costs of \$12,114,706, which are included in printing, publications and media; postage and delivery; computer and mailing services; mailing list rental; and professional fees in the accompanying consolidated statement of functional expenses.

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2018

14. Allocation of Joint Costs (continued)

The joint costs have been allocated as follows:

Health Information Services	\$ 5,672,353
Fundraising	5,512,569
Management and general	<u>929,784</u>
Total Joint Costs	<u>\$12,114,706</u>

15. Pension Plans

BrightFocus sponsors a money purchase pension plan (MPP), which covers all full-time employees who have completed at least one year of service. BrightFocus makes contributions to the MPP based on years of service of the participant as follows: 5% after one year of service, 10% after two years of service and 15% after three or more years of service. BrightFocus employees are 25% vested in the MPP after one year of service, 50% after two years of service, 75% after three years of service and fully after four years of service. Total contributions by BrightFocus to the MPP totaled \$403,241 for the year ended March 31, 2018.

BrightFocus also sponsors a defined-contribution annuity plan (the 403(b) plan). BrightFocus employees may elect to have tax-deferred amounts of their pay withheld and contributed to the 403(b) plan, subject to the maximum employee contribution limits determined by the Internal Revenue Service. There were no contributions from BrightFocus to the 403(b) plan for the year ended March 31, 2018.

16. Income Taxes

BrightFocus is exempt from the payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes was required for the year ended March 31, 2018, as BrightFocus had no net unrelated business income.

NDLLC and AHALLC are treated as disregarded entities for tax purposes, and their financial activities are therefore included in the tax return of BrightFocus.

BrightFocus reviews and assesses all activities annually to identify any changes in the scope of its activities and revenue sources and the tax treatment thereof, to identify any uncertainty in income taxes. BrightFocus performed an evaluation of uncertainty in income taxes for the year ended March 31, 2018, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of March 31, 2018, the statute of limitations for tax years ended March 31, 2014, through March 31, 2016, remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which BrightFocus files tax returns. It is the policy of BrightFocus to recognize interest and/or penalties related to uncertainty of income taxes, if any, in income tax expense. As of March 31, 2018, BrightFocus had no accruals for interest and/or penalties.

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2018

17. Prior Year Summarized Financial Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or functional area. Accordingly, such information should be read in conjunction with the organization's consolidated financial statements for the year ended March 31, 2017, from which the summarized information was derived.

18. Subsequent Events

In preparing these consolidated financial statements, BrightFocus has evaluated events and transactions for potential recognition or disclosure through June 27, 2018, the date the consolidated financial statements were available to be issued. There were no subsequent events identified through June 27, 2018 that were required to be recognized or disclosed in these consolidated financial statements.