



**BrightFocus™
Foundation**

Cure in Mind. Cure in Sight.

Consolidated Financial Statements

For the Year Ended March 31, 2019

(With Summarized Financial Information for the Year Ended March 31, 2018)



**and
Report Thereon**



BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BrightFocus Foundation and Subsidiaries

Report on the Financial Statements

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, 2019, 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.

Auditors' 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 auditors' 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.

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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, 2019, 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.

Other Matter

Report on Prior Year Summarized Comparative Information

The consolidated financial statements of BrightFocus Foundation as of and for the year ended March 31, 2018, were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated June 27, 2018, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Marcum LLP

Washington, DC
June 26, 2019

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
March 31, 2019
(With Summarized Financial Information as of March 31, 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,106,677	\$ 2,635,346
Short-term investments	337,121	239,243
Pledges receivable, current portion	220,000	200,000
Charitable remainder and lead trusts, current portion	1,260,000	370,000
Bequests receivable, current portion	736,287	1,271,639
Prepaid expenses and other current assets	191,588	351,394
Total Current Assets	6,851,673	5,067,622
Investments	37,056,380	36,209,403
Pledges receivable, net of current portion	-	57,279
Bequests receivable, net of current portion	48,673	-
Charitable remainder and lead trusts, net of current portion	6,502,062	2,433,062
Property and equipment, net	3,964,632	4,148,105
Rental property	3,802,708	3,844,488
Other assets	767,555	834,514
TOTAL ASSETS	\$ 58,993,683	\$ 52,594,473
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 574,491	\$ 389,385
Deferred revenue	116,330	109,250
Research grants payable, current portion	10,327,343	7,500,554
Charitable gift annuities, current portion	167,494	177,846
Total Current Liabilities	11,185,658	8,177,035
Research grants payable, net of current portion	13,488,302	11,354,207
Charitable gift annuities, net of current portion	892,854	1,003,574
Other liabilities	148,460	191,165
TOTAL LIABILITIES	25,715,274	20,725,981
Net Assets		
Without donor restrictions	15,150,746	19,576,833
With donor restrictions	18,127,663	12,291,659
TOTAL NET ASSETS	33,278,409	31,868,492
TOTAL LIABILITIES AND NET ASSETS	\$ 58,993,683	\$ 52,594,473

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, 2019
(With Summarized Financial Information for the Year Ended March 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
REVENUE AND SUPPORT				
Contributions and grants	\$ 283,530	\$ 29,037,879	\$ 29,321,409	\$ 28,242,884
Bequests	234,049	9,863,022	10,097,071	3,927,992
Donated goods and services	-	9,487,455	9,487,455	13,658,057
Investment income, net	956,327	-	956,327	2,199,213
Rental income, net	-	595,306	595,306	610,038
Other	-	620,243	620,243	700,358
Special events	257,700	5,210	262,910	217,521
Less: cost of direct benefit to attendees	(288,238)	-	(288,238)	(213,654)
Special events, net	(30,538)	5,210	(25,328)	3,867
Net assets released from restrictions:				
Satisfaction of program restrictions	43,773,111	(43,773,111)	-	-
TOTAL REVENUE AND SUPPORT	45,216,479	5,836,004	51,052,483	49,342,409
EXPENSES				
Program Services:				
Research	20,551,696	-	20,551,696	16,918,809
Health Information Services	18,097,535	-	18,097,535	21,824,131
Total Program Services	38,649,231	-	38,649,231	38,742,940
Supporting Services:				
Fundraising	7,758,064	-	7,758,064	7,095,464
Management and general	3,235,271	-	3,235,271	3,330,848
Total Supporting Services	10,993,335	-	10,993,335	10,426,312
TOTAL EXPENSES	49,642,566	-	49,642,566	49,169,252
CHANGE IN NET ASSETS	(4,426,087)	5,836,004	1,409,917	173,157
NET ASSETS, BEGINNING OF YEAR	19,576,833	12,291,659	31,868,492	31,695,335
NET ASSETS, END OF YEAR	\$ 15,150,746	\$ 18,127,663	\$ 33,278,409	\$ 31,868,492

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, 2019

(With Summarized Financial Information for the Year Ended March 31, 2018)

	Program Services			Supporting Services			2019 Total	2018 Total
	Research	Health Information Services	Total Program Services	Fundraising	Management and General	Total Supporting Services		
Grants	\$ 16,131,664	\$ -	\$ 16,131,664	\$ -	\$ -	\$ -	\$ 16,131,664	\$ 13,352,994
Printing, publications and media	379,984	11,509,517	11,889,501	1,999,935	234,036	2,233,971	14,123,472	17,505,438
Postage and delivery	43,366	3,069,015	3,112,381	2,649,026	378,920	3,027,946	6,140,327	5,623,802
Salaries and related expenses	2,250,472	888,654	3,139,126	688,160	1,572,782	2,260,942	5,400,068	5,036,076
Computer and mailing services	313,912	978,391	1,292,303	767,585	216,722	984,307	2,276,610	2,392,738
Professional fees	492,838	680,652	1,173,490	815,395	152,854	968,249	2,141,739	1,937,996
Mailing list rental	-	711,788	711,788	640,117	57,769	697,886	1,409,674	1,279,964
Office-related expenses	204,176	72,694	276,870	53,425	260,456	313,881	590,751	531,594
Travel, meetings and symposia	402,747	41,482	444,229	66,630	66,990	133,620	577,849	523,928
Occupancy and utilities	189,140	82,636	271,776	41,596	145,231	186,827	458,603	425,490
Depreciation and amortization	143,397	62,706	206,103	36,195	149,511	185,706	391,809	559,232
TOTAL EXPENSES	\$ 20,551,696	\$ 18,097,535	\$ 38,649,231	\$ 7,758,064	\$ 3,235,271	\$ 10,993,335	\$ 49,642,566	\$ 49,169,252

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, 2019
(With Summarized Financial Information for the Year Ended March 31, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,409,917	\$ 173,157
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	391,809	559,232
Realized gains on investments	(1,041,863)	(1,186,607)
Unrealized losses (gains) on investments	713,169	(599,410)
Gain in fair value on charitable remainder and lead trusts	(72,649)	(321,937)
Change in present value of gift annuity liabilities	(30,599)	18,108
Changes in assets and liabilities:		
Pledges receivable	37,279	(12,087)
Charitable remainder and lead trusts	(4,886,351)	362,390
Bequests receivable	486,679	1,397,342
Prepaid expenses and other current assets	159,806	9,873
Other assets	66,959	(198,181)
Accounts payable and accrued expenses	185,106	53,664
Deferred revenue	7,080	109,250
Research grants payable	4,960,884	1,434,291
Other liabilities	(42,705)	(34,206)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,344,521	1,764,879
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	15,822,790	13,430,888
Purchases of investments	(16,438,950)	(13,904,741)
Purchases of property and equipment	(166,556)	(137,225)
NET CASH USED IN INVESTING ACTIVITIES	(782,716)	(611,078)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions invested for gift annuity purposes	82,871	70,000
Payments to charitable gift annuitants	(173,345)	(183,305)
NET CASH USED IN FINANCING ACTIVITIES	(90,474)	(113,305)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,471,331	1,040,496
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,635,346	1,594,850
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,106,677	\$ 2,635,346

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, 2019

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 fund exceptional scientific research worldwide to defeat Alzheimer's disease, macular degeneration, and glaucoma and provide expert information on these heartbreaking diseases.

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 levee 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 and 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. 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 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.

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2019

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

Investments (continued)

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.

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.

Property and Equipment and Related Depreciation and Amortization

Property and equipment includes 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. BrightFocus capitalizes property and equipment with a cost of \$2,000 or more and an economic life in excess of one year. 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.

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2019

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

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.

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, 2019.

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.

Classification of Net Assets

BrightFocus's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of BrightFocus at the discretion of BrightFocus's management and the Board of Directors.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for specific periods of time. These donor restrictions can be temporary in nature in that they will be met by actions of BrightFocus or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

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.

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2019

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

Revenue Recognition (continued)

BrightFocus reports gifts of cash and other assets as donor 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

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.

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 statement of functional expenses. Expenses directly attributed to a specific functional area of BrightFocus are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Occupancy expense is allocated based on square footage, joint costs are allocated based on the relevant materials, and other shared costs such as personnel, finance and technology are allocated based on time review.

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 expense, based on the related materials.

The programs and supporting services are described as follows:

Health Information Services – Expenses incurred to further the vision of BrightFocus for a world 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.

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.

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2019

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

Functional Allocation of Expenses (continued)

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.

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information presented about expenses and investment return. BrightFocus has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. The major changes of the ASU affecting BrightFocus include (a) requiring the representation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”; (b) requiring the disclosure of qualitative and quantitative information regarding the liquidity and availability of resources; and (c) incorporating the statement of functional expenses into the basic financial statements or in the notes to the financial statements.

2. Investments

Investments consisted of the following as of March 31, 2019:

Short-term investments:	
Money market funds	\$ <u>337,121</u>
Long-term investments:	
Equity mutual funds	14,435,745
Corporate bonds	5,751,915
Structured notes	5,286,941
Fixed-income mutual funds	3,195,493
Domestic marketable equity securities	3,117,790
Government-sponsored entity bonds	2,951,170

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2019

2. Investments (continued)

Long-term investments (continued):	
Mortgage and asset-backed securities	\$ 1,260,460
Equity exchange-traded fund	766,283
Fixed-income exchange traded fund	<u>290,583</u>
Total Long-Term Investments	<u>37,056,380</u>
Total Investments	<u>\$ 37,393,501</u>

A summary of investment income is as follows for the year ended March 31, 2019:

Interest and dividends	\$ 914,311
Realized gains, net	1,041,863
Unrealized gains, net	(713,169)
Management fees	<u>(286,678)</u>
Investment Income, Net	<u>\$ 956,327</u>

3. Pledges Receivable

Pledges receivable represent unconditional promises to give and are recorded at net realizable value. As of March 31, 2019, pledges receivable totaled \$220,000 and are expected to be received by BrightFocus within the next year.

4. Bequests and Trusts Receivable

As of March 31, 2019, bequests receivable totaled \$784,960 and consisted of unconditional wills and trusts.

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, 2019. 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 5.5%, resulting in a total receivable of \$7,762,062. For the year ended March 31, 2019, the change in value of these split-interest agreements resulted in a gain of \$72,649, 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 \$302,000, which is included in other assets in the accompanying consolidated statement of financial position.

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2019

4. Bequests and Trusts Receivable (continued)

As of March 31, 2019, bequests and trusts were expected to be received as follows:

Less than one year	\$ 1,996,287
One to five years	4,845,976
More than five years	<u>3,475,100</u>
Total Bequests and Trusts Receivable	10,317,363
Less: Discount to Net Present Value	<u>(1,770,341)</u>
Bequests and Trusts Receivable, Net	<u>\$ 8,547,022</u>

In addition, as of March 31, 2019, BrightFocus was aware of approximately \$437,000 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. 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, 2019, the present value of the annuity payments totaled \$1,060,348, which is based on various life expectancies and has an expected rate of return of 1.1% to 8%. Of the total annuity liability, \$167,494 is scheduled for payment within the next year, with the remaining balance of \$892,854 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, 2019, BrightFocus had \$1,962,822 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, 2019, BrightFocus received \$82,871 in gift annuities.

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2019

6. Fair Value Measurement

The following table summarizes the assets of BrightFocus measured at fair value on a recurring basis as of March 31, 2019:

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)
Charitable remainder and lead trusts	\$ 7,762,062	\$ -	\$ -	\$ 7,762,062
Perpetual trust	302,000	-	-	302,000
Investments:				
Money market funds	337,121	337,121	-	-
Equity mutual funds:				
Real estate fund	930,279	930,279	-	-
Large cap blend	13,505,466	13,505,466	-	-
Total Equity Mutual Funds	14,435,745	14,435,745	-	-
Corporate bonds	5,751,915	-	5,751,915	-
Structured notes	5,286,941	-	5,286,941	-
Fixed-income mutual funds	3,195,493	3,195,493	-	-
Domestic marketable equity securities:				
Consumer staples	61,229	61,229	-	-
Information technology	497,995	497,995	-	-
Consumer discretionary	885,302	885,302	-	-
Health care	317,006	317,006	-	-
Industrial	372,651	372,651	-	-
Financial	460,934	460,934	-	-
Energy and utilities	222,073	222,073	-	-
Materials	264,168	264,168	-	-
Real estate	36,432	36,432	-	-
Total Domestic Marketable Equity Securities	3,117,790	3,117,790	-	-
Government-sponsored entity bonds	2,951,170	-	2,951,170	-

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2019**

6. 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):				
Mortgage and asset-backed securities	\$ 1,260,460	\$ -	\$ 1,260,460	\$ -
Equity exchange-traded fund	766,283	766,283	-	-
Fixed-income exchange-traded fund	290,583	290,583	-	-
Total Investments	37,393,501	22,143,015	15,250,486	-
Total Assets	\$ 45,457,563	\$ 22,143,015	\$ 15,250,486	\$ 8,064,062

BrightFocus used the following methods and significant assumptions to estimate fair value for assets measured at fair value:

Charitable remainder, lead and perpetual trust agreements – The expected future cash inflows from the charitable lead and remainder trusts are based on the fair value of the investments, future expected investment returns, and the life expectancy of the donor or donor’s designee and have been recorded at present value based on a discount rate of 5.5%. The perpetual trusts are recorded at the present value of the future distributions expected to be received over the terms of the agreements. The value of these trusts is based on unobservable inputs and is classified within Level 3 of the fair value hierarchy.

Money market funds, equity and fixed-income mutual funds and exchange-traded funds, corporate bonds, structured notes, domestic marketable equity securities, government-sponsored entity bonds, and mortgage and asset-backed securities – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, domestic marketable equity securities, and equity and fixed-income mutual funds. If quoted market prices are not available, then fair values are estimated using pricing models, such as matrix pricing, quoted prices of securities with similar characteristics or discounted cash flows. These instruments, which would generally be classified within Level 2 of the valuation hierarchy, include government-sponsored entity bonds, mortgage and asset-backed securities, corporate bonds, and structured notes linked to the performance of stock indices.

During the year ended March 31, 2019, there were \$5,255,000 in new contributions from donors to the Level 3 financial assets.

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2019

7. Property and Equipment

Property and equipment was as follows as of March 31, 2019:

Land	\$ 1,147,363
Buildings	5,108,128
Computer equipment and software	822,220
Office equipment	386,596
Office furniture	204,078
Automobile	<u>14,163</u>
Total Property and Equipment	7,682,548
Less: Accumulated Depreciation and Amortization	<u>(3,717,916)</u>
Property and Equipment, Net	<u>\$ 3,964,632</u>

Depreciation and amortization expense totaled \$391,809 for the year ended March 31, 2019.

8. 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 \$626,692 as of March 31, 2019. Rental income earned, net of associated expenses, totaled \$595,306 for the year ended March 31, 2019. 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 \$465,555 as of March 31, 2019, and is included in other assets in the accompanying consolidated statement of financial position.

As of March 31, 2019, the future minimum rentals were as follows:

For the Year Ending March 31,	
<u>2020</u>	\$ 742,614
2021	742,829
2022	743,048
2023	743,272
2024	591,505
Thereafter	<u>53,124</u>
Total	<u>\$ 3,616,392</u>

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BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2019

9. Research Grants

BrightFocus awards annual research grants that cover periods of one to three fiscal years. As of March 31, 2019, \$23,815,645 was payable for research grants that have been awarded by the Board of Directors. Of the total grants payable, \$10,327,343 has been scheduled for payment by BrightFocus within the next year, with the remaining balance of \$13,488,302 (net of the present value discount of \$318,374) due to be paid out no later than fiscal year 2023. The average discount rate used was 2.3%.

10. Net Assets With Donor Restrictions

As of March 31, 2019, net assets with donor restrictions were restricted for the following purposes:

Subject to expenditure for specified purpose:	
National Glaucoma Research	\$ 3,979,547
Macular Degeneration Research	5,741,406
Alzheimer's Disease Research	<u>8,104,710</u>
Total Subject to Expenditure for Specified Purpose	17,825,663
Subject to donor restriction in perpetuity:	
Alzheimer's Disease Research – Perpetual Trusts	<u>302,000</u>
Total Net Assets With Donor Restrictions	<u>\$ 18,127,663</u>

BrightFocus has recorded \$302,000 that consist of shares of two perpetual trusts which are included in other assets in the accompanying consolidated statement of financial position. These perpetual trusts are held as permanent endowments. The earnings on these endowments are available for Alzheimer's Disease Research programs and are recorded as donor restricted investment income and released as spent.

11. Availability and Liquidity

BrightFocus regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to preserve the principal and return on the investment of its funds. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, state required annuity reserves, and perpetual trusts. BrightFocus' financial assets available within one year of the statement of financial position date for general expenditures at March 31, 2019, are as follows:

Cash and cash equivalents	\$ 4,106,677
Pledges receivable, current portion	220,000
Charitable remainder and lead trusts, current portion	1,260,000
Bequests receivable, current portion	736,287
Investments	<u>37,393,501</u>
Total Financial Assets Available Within One Year	43,716,465

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BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2019

11. Availability and Liquidity (continued)

Less:

Amounts unavailable for general expenditures within one year due to:	
Restricted by donors with purpose restrictions	\$ (7,524,394)
Amounts unavailable to management:	
Investments held in state required annuity reserves	<u>(1,962,822)</u>
Financial Assets Available to Meet	
General Expenditures Within One Year	<u>\$ 34,229,249</u>

BrightFocus has various sources of liquidity at its disposal, including cash and cash equivalents and investments which are available for general expenditures, liabilities and other obligations as they come due. Management is focused in sustaining the financial liquidity of BrightFocus throughout the year. This is done through monitoring and reviewing BrightFocus' cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of BrightFocus' cash flow related to BrightFocus' various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in publicly traded investment vehicles, including mutual funds, fixed income and equity securities. BrightFocus can liquidate its investments anytime and therefore the investments are available to meet current cash flow needs.

12. 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 encourage the public to participate in BrightFocus program outreach. The fair value of the public service announcements totaled \$9,487,455 for the year ended March 31, 2019, 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.

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2019

13. Program Activities

For the year ended March 31, 2019, BrightFocus had expenditures for the following disease-related purposes in its two program activities, Health Information Services and Research:

	Health Information Services	Research	Total
Alzheimer's Disease Research	\$ 8,097,142	\$ 13,800,594	\$ 21,897,736
Macular Degeneration Research	5,680,561	4,107,358	9,787,919
National Glaucoma Research	<u>4,319,832</u>	<u>2,643,744</u>	<u>6,963,576</u>
Total Program Services	<u>\$ 18,097,535</u>	<u>\$ 20,551,696</u>	<u>\$ 38,649,231</u>

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, 2019, these activities included joint costs of \$12,804,245, which are included in printing, publications and media; postage and delivery; computer and mailing services; professional fees; and mailing list rental in the accompanying consolidated statement of functional expenses.

The joint costs have been allocated as follows:

Health Information Services	\$ 6,052,805
Fundraising	6,012,586
Management and general	<u>738,854</u>
Total Joint Costs	<u>\$ 12,804,245</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: 3% after one year of service, 6% after two years of service and 9% 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 are fully vested after four years of service. Total contributions by BrightFocus to the MPP totaled \$369,981 for the year ended March 31, 2019.

Continued

BRIGHTFOCUS FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2019

15. Pension Plans (continued)

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, 2019.

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, 2019, 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, 2019, 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, 2019, the statute of limitations for tax years ended March 31, 2016, through March 31, 2018, remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which BrightFocus files tax returns; however, there are currently no examinations in progress. It is the policy of BrightFocus to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of March 31, 2019, BrightFocus had no accruals for interest and/or penalties.

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. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the organization's consolidated financial statements for the year ended March 31, 2018, 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 26, 2019, the date the consolidated financial statements were available to be issued. There were no subsequent events identified through June 26, 2019, that are required to be disclosed in these consolidated financial statements.