

FOUNDATION FIGHTING BLINDNESS

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

Consolidated Financial Statements

For the Years Ended June 30, 2017 and 2016



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Foundation Fighting Blindness, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of Foundation Fighting Blindness, Inc. and Affiliates (collectively referred to as the Foundation), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 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 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

Continued

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 Foundation Fighting Blindness, Inc. and Affiliates as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Raffa, P.C.

Raffa, P.C.

Washington, DC
October 10, 2017

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016**

| | 2017 | | | | 2016 | | | |
|--|-----------------------------|------------------------------|----------------------------|------------------------------|-----------------------------|------------------------------|----------------------------|------------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| ASSETS | | | | | | | | |
| Cash and cash equivalents | \$ 5,810,143 | \$ - | \$ - | \$ 5,810,143 | \$ 6,773,952 | \$ - | \$ - | \$ 6,773,952 |
| Investments | 26,766,149 | 71,085,784 | 3,256,748 | 101,108,681 | 24,382,677 | 63,003,840 | 2,750,000 | 90,136,517 |
| Pledges receivable, net | 1,624,875 | 33,826,324 | - | 35,451,199 | 2,006,700 | 49,581,164 | 440,000 | 52,027,864 |
| Prepaid expenses and other assets | 2,369,066 | 27,901 | - | 2,396,967 | 1,434,445 | 38,650 | - | 1,473,095 |
| Beneficial interests in remainder trusts | - | 6,003,320 | - | 6,003,320 | - | 5,814,151 | - | 5,814,151 |
| Deferred compensation fund | 931,790 | - | - | 931,790 | 746,532 | - | - | 746,532 |
| Charitable gift annuity investments and reserves | 912,681 | - | - | 912,681 | 1,039,805 | - | - | 1,039,805 |
| Fixed assets, net | 1,558,178 | - | - | 1,558,178 | 1,630,411 | - | - | 1,630,411 |
| TOTAL ASSETS | <u>\$ 39,972,882</u> | <u>\$ 110,943,329</u> | <u>\$ 3,256,748</u> | <u>\$ 154,172,959</u> | <u>\$ 38,014,522</u> | <u>\$ 118,437,805</u> | <u>\$ 3,190,000</u> | <u>\$ 159,642,327</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable and accrued expenses | \$ 800,734 | \$ 4,812 | \$ - | \$ 805,546 | \$ 1,495,501 | \$ 5,129 | \$ - | \$ 1,500,630 |
| Grants payable | 10,667,771 | - | - | 10,667,771 | 10,133,128 | - | - | 10,133,128 |
| Deferred revenue | 826,220 | - | - | 826,220 | 1,145,809 | - | - | 1,145,809 |
| Deferred rent and construction allowance | 522,517 | - | - | 522,517 | 657,400 | - | - | 657,400 |
| Deferred compensation obligation | 931,790 | - | - | 931,790 | 749,782 | - | - | 749,782 |
| Charitable gift annuity obligation | 736,676 | - | - | 736,676 | 864,631 | - | - | 864,631 |
| TOTAL LIABILITIES | <u>14,485,708</u> | <u>4,812</u> | <u>-</u> | <u>14,490,520</u> | <u>15,046,251</u> | <u>5,129</u> | <u>-</u> | <u>15,051,380</u> |
| Net Assets | | | | | | | | |
| Unrestricted net assets | | | | | | | | |
| Internally designated for reserves | 7,300,000 | - | - | 7,300,000 | 7,100,000 | - | - | 7,100,000 |
| Internally designated for research | 16,628,996 | - | - | 16,628,996 | 14,237,860 | - | - | 14,237,860 |
| Represented by fixed assets | 1,558,178 | - | - | 1,558,178 | 1,630,411 | - | - | 1,630,411 |
| Total Unrestricted Net Assets | <u>25,487,174</u> | <u>-</u> | <u>-</u> | <u>25,487,174</u> | <u>22,968,271</u> | <u>-</u> | <u>-</u> | <u>22,968,271</u> |
| Temporarily restricted net assets | - | 110,938,517 | - | 110,938,517 | - | 118,432,676 | - | 118,432,676 |
| Permanently restricted net assets | - | - | 3,256,748 | 3,256,748 | - | - | 3,190,000 | 3,190,000 |
| TOTAL NET ASSETS | <u>25,487,174</u> | <u>110,938,517</u> | <u>3,256,748</u> | <u>139,682,439</u> | <u>22,968,271</u> | <u>118,432,676</u> | <u>3,190,000</u> | <u>144,590,947</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 39,972,882</u> | <u>\$ 110,943,329</u> | <u>\$ 3,256,748</u> | <u>\$ 154,172,959</u> | <u>\$ 38,014,522</u> | <u>\$ 118,437,805</u> | <u>\$ 3,190,000</u> | <u>\$ 159,642,327</u> |

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

**THE FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2017 and 2016**

| | 2017 | | | | 2016 | | | |
|--|----------------------|---------------------------|---------------------------|-----------------------|----------------------|---------------------------|---------------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUE AND SUPPORT | | | | | | | | |
| Public Support: | | | | | | | | |
| Contributions from individuals, corporations and foundations | \$ 3,843,068 | \$ 7,175,138 | \$ - | \$ 11,018,206 | \$ 4,022,392 | \$ 50,593,496 | \$ - | \$ 54,615,888 |
| Special events: | 8,680,354 | - | - | 8,680,354 | 9,926,545 | - | - | 9,926,545 |
| Less: Special event direct benefit costs | (1,168,317) | - | - | (1,168,317) | (1,758,305) | - | - | (1,758,305) |
| Special events, net | 7,512,037 | - | - | 7,512,037 | 8,168,240 | - | - | 8,168,240 |
| Planned giving | 2,446,513 | 1,142,218 | 66,748 | 3,655,479 | 2,171,868 | (728,342) | 2,690,000 | 4,133,526 |
| Allocated by federated fundraising organizations | 144,948 | 3,803 | - | 148,751 | 201,765 | 3,115 | - | 204,880 |
| Contributed goods and services | 269,974 | - | - | 269,974 | 253,097 | - | - | 253,097 |
| Total Public Support | 14,216,540 | 8,321,159 | 66,748 | 22,604,447 | 14,817,362 | 49,868,269 | 2,690,000 | 67,375,631 |
| Other Revenue: | | | | | | | | |
| Program service fees | 32,070 | - | - | 32,070 | 118,091 | - | - | 118,091 |
| Investment income, net | 390,857 | 17,173 | - | 408,030 | 3,376,213 | 23,270 | - | 3,399,483 |
| Contract revenue | 184,753 | - | - | 184,753 | 96,354 | - | - | 96,354 |
| Research patent revenue | 819 | - | - | 819 | 1,250,000 | - | - | 1,250,000 |
| Other income | 32,567 | - | - | 32,567 | 35,163 | - | - | 35,163 |
| Net assets released from restrictions: | | | | | | | | |
| Satisfaction of time and program restrictions | 15,832,491 | (15,832,491) | - | - | 15,724,351 | (15,724,351) | - | - |
| TOTAL REVENUE AND SUPPORT | 30,690,097 | (7,494,159) | 66,748 | 23,262,686 | 35,417,534 | 34,167,188 | 2,690,000 | 72,274,722 |
| EXPENSES | | | | | | | | |
| Program Services: | | | | | | | | |
| Research | 16,496,908 | - | - | 16,496,908 | 16,351,541 | - | - | 16,351,541 |
| Public health education | 1,609,251 | - | - | 1,609,251 | 2,260,094 | - | - | 2,260,094 |
| Total Program Services | 18,106,159 | - | - | 18,106,159 | 18,611,635 | - | - | 18,611,635 |
| Supporting Services: | | | | | | | | |
| Management and general | 2,841,870 | - | - | 2,841,870 | 2,728,716 | - | - | 2,728,716 |
| Fundraising | 7,223,165 | - | - | 7,223,165 | 7,228,421 | - | - | 7,228,421 |
| Total Supporting Services | 10,065,035 | - | - | 10,065,035 | 9,957,137 | - | - | 9,957,137 |
| TOTAL EXPENSES | 28,171,194 | - | - | 28,171,194 | 28,568,772 | - | - | 28,568,772 |
| CHANGE IN NET ASSETS | 2,518,903 | (7,494,159) | 66,748 | (4,908,508) | 6,848,762 | 34,167,188 | 2,690,000 | 43,705,950 |
| NET ASSETS, BEGINNING OF YEAR | 22,968,271 | 118,432,676 | 3,190,000 | 144,590,947 | 16,119,509 | 84,265,488 | 500,000 | 100,884,997 |
| NET ASSETS, END OF YEAR | \$ 25,487,174 | \$ 110,938,517 | \$ 3,256,748 | \$ 139,682,439 | \$ 22,968,271 | \$ 118,432,676 | \$ 3,190,000 | \$ 144,590,947 |

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

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2017 and 2016**

| | 2017 | | | | | | | 2016 | | | | | | |
|--|----------------------|-------------------------|------------------------|------------------------|---------------------|---------------------------|----------------------|----------------------|-------------------------|------------------------|------------------------|---------------------|---------------------------|----------------------|
| | Program Services | | | Supporting Services | | | | Program Services | | | Supporting Services | | | |
| | Research | Public Health Education | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total | Research | Public Health Education | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total |
| Salaries | \$ 1,194,583 | \$ 845,377 | \$ 2,039,960 | \$ 1,023,268 | \$ 2,918,573 | \$ 3,941,841 | \$ 5,981,801 | \$ 1,030,186 | \$ 740,835 | \$ 1,771,021 | \$ 1,042,906 | \$ 2,824,227 | \$ 3,867,133 | \$ 5,638,154 |
| Employee benefits | 89,669 | 137,535 | 227,204 | 152,964 | 362,053 | 515,017 | 742,221 | 108,932 | 142,104 | 251,036 | 191,716 | 481,166 | 672,882 | 923,918 |
| Payroll taxes | 73,667 | 58,481 | 132,148 | 67,609 | 206,424 | 274,033 | 406,181 | 60,721 | 52,387 | 113,108 | 68,233 | 207,115 | 275,348 | 388,456 |
| Total Salaries and Related Expenses | 1,357,919 | 1,041,393 | 2,399,312 | 1,243,841 | 3,487,050 | 4,730,891 | 7,130,203 | 1,199,839 | 935,326 | 2,135,165 | 1,302,855 | 3,512,508 | 4,815,363 | 6,950,528 |
| Professional fees | 785,915 | 128,482 | 914,397 | 780,580 | 971,551 | 1,752,131 | 2,666,528 | 1,188,293 | 327,827 | 1,516,120 | 607,651 | 1,205,390 | 1,813,041 | 3,329,161 |
| Printing and production | 7,817 | 112,272 | 120,089 | 18,734 | 805,392 | 824,126 | 944,215 | 9,978 | 136,549 | 146,527 | 19,630 | 590,438 | 610,068 | 756,595 |
| Travel | 89,142 | 39,969 | 129,111 | 28,053 | 230,235 | 258,288 | 387,399 | 72,704 | 54,198 | 126,902 | 24,059 | 218,211 | 242,270 | 369,172 |
| Conferences and meetings | 242,548 | 112,028 | 354,576 | 128,123 | 77,141 | 205,264 | 559,840 | 112,072 | 627,658 | 739,730 | 127,195 | 109,060 | 236,255 | 975,985 |
| Occupancy | 39,925 | 47,911 | 87,836 | 136,401 | 457,432 | 593,833 | 681,669 | 34,602 | 42,588 | 77,190 | 119,150 | 437,105 | 556,255 | 633,445 |
| Telecommunications | 44,341 | 22,959 | 67,300 | 58,831 | 160,520 | 219,351 | 286,651 | 25,054 | 22,080 | 47,134 | 48,443 | 147,734 | 196,177 | 243,311 |
| Supplies | 23,626 | 7,640 | 31,266 | 119,521 | 254,803 | 374,324 | 405,590 | 46,035 | 15,168 | 61,203 | 165,507 | 192,240 | 357,747 | 418,950 |
| Insurance | 25,568 | 23,970 | 49,538 | 28,793 | 92,837 | 121,630 | 171,168 | 18,652 | 20,087 | 38,739 | 25,826 | 99,547 | 125,373 | 164,112 |
| Depreciation and amortization | 168,795 | 13,861 | 182,656 | 16,633 | 104,298 | 120,931 | 303,587 | 218,030 | 15,179 | 233,209 | 19,517 | 123,646 | 143,163 | 376,372 |
| Postage | 700 | 42,480 | 43,180 | 10,860 | 258,506 | 269,366 | 312,546 | 2,910 | 50,291 | 53,201 | 11,325 | 278,985 | 290,310 | 343,511 |
| Bank charges, service fees and other | 59,474 | 16,286 | 75,760 | 271,500 | 323,400 | 594,900 | 670,660 | 61,806 | 13,143 | 74,949 | 257,558 | 313,557 | 571,115 | 646,064 |
| Total Expenses before Grants and Clinical Trial Related Costs | 2,845,770 | 1,609,251 | 4,455,021 | 2,841,870 | 7,223,165 | 10,065,035 | 14,520,056 | 2,989,975 | 2,260,094 | 5,250,069 | 2,728,716 | 7,228,421 | 9,957,137 | 15,207,206 |
| Grants and clinical trial related costs | 13,651,138 | - | 13,651,138 | - | - | - | 13,651,138 | 13,361,566 | - | 13,361,566 | - | - | - | 13,361,566 |
| TOTAL EXPENSES | \$ 16,496,908 | \$ 1,609,251 | \$ 18,106,159 | \$ 2,841,870 | \$ 7,223,165 | \$ 10,065,035 | \$ 28,171,194 | \$ 16,351,541 | \$ 2,260,094 | \$ 18,611,635 | \$ 2,728,716 | \$ 7,228,421 | \$ 9,957,137 | 28,568,772 |
| Special event direct benefit costs | | | | | | | 1,168,317 | | | | | | | 1,758,305 |
| TOTAL EXPENSES AND SPECIAL EVENT DIRECT BENEFIT COSTS | | | | | | | \$ 29,339,511 | | | | | | | \$ 30,327,077 |

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

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years June 30, 2017 and 2016
Increase (Decrease) in Cash and Cash Equivalents**

| | 2017 | 2016 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (4,908,508) | \$ 43,705,950 |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: | | |
| Net realized and unrealized losses on investments | 3,879,667 | 82,642 |
| Change in discount on receivables | (209,590) | 625,933 |
| Change in value of split-interest agreements | (188,806) | 749,315 |
| Depreciation and amortization | 303,587 | 376,372 |
| Loss from disposal of equipment | 21,590 | - |
| Amortization of deferred construction allowance | 77,351 | 77,351 |
| Contributions restricted for long-term purposes | (506,748) | (2,250,000) |
| Changes in assets and liabilities: | | |
| Pledges receivable | 16,786,255 | (29,165,618) |
| Prepaid expenses and other assets | (923,872) | (342,418) |
| Accounts payable and accrued expenses | (695,084) | 1,945,591 |
| Grants payable | 534,643 | 354,741 |
| Deferred revenue | (319,589) | 956,940 |
| Deferred rent | (212,234) | (190,208) |
| Deferred compensation obligation | 182,008 | 77,663 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 13,820,670 | 17,004,254 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (54,660,084) | (29,144,912) |
| Purchase of investments for deferred compensation | (312,235) | (171,696) |
| Proceeds from sales or maturities of investments | 39,808,253 | 14,899,696 |
| Proceeds from sales of investments for deferred compensation | 126,977 | 94,204 |
| Termination of split-interest agreement assets | 102,662 | - |
| Purchase of split-interest agreement assets | (37,321) | (79,562) |
| Proceeds from sales of split-interest agreement assets | 125,105 | 118,476 |
| Purchase of fixed assets | (252,944) | (8,484) |
| NET CASH USED IN INVESTING ACTIVITIES | (15,099,587) | (14,292,278) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions restricted for long-term purposes | 506,748 | 2,250,000 |
| Liability related to charitable gift annuity | 37,321 | 70,615 |
| Payments to charitable gift annuity beneficiaries | (121,125) | (118,056) |
| Termination of charitable gift annuity | (107,836) | - |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 315,108 | 2,202,559 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (963,809) | 4,914,535 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 6,773,952 | 1,859,417 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 5,810,143 | \$ 6,773,952 |

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

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

1. Organization and Summary of Significant Accounting Policies

Organization

Foundation Fighting Blindness, Inc. (FFB) is a national eye research foundation that raises money to fund translational and clinical research at prominent institutions in the United States of America and worldwide for the discovery of treatments, preventative methods and cures for all retinal degenerative eye diseases, which include forms of retinitis pigmentosa, macular degeneration and Usher syndrome. FFB also serves as a source of information for professionals and affected families. Its principal programs include:

- Research – FFB funds a diverse portfolio of research projects in such areas as genetics and gene therapy, stem cell therapy and pharmaceuticals at prominent institutions, laboratories, hospitals and universities nationwide and around the world.

As a result of the successful Gordon and Laura Gund Family Challenge, FFB has a strong financial base to support the work that will determine the efficacy and safety of new therapies. FFB's Research Oversight Committee (ROC) evaluates the potential of current research into retinal degenerative diseases and related science in gene therapy, stem cell transplantation as well as emerging developments in optogenetics and neuroscience. This committee of expert scientists have formulated a strategic plan for the allocation of FFB's research funding from its existing assets and future fundraising. That plan calls for FFB's investment of approximately \$20 million per year for translational research and proof of concept research – the pre-clinical investigative work that will lead to Food and Drug Administration (FDA) approved clinical trials and, ultimately, FDA approved new treatments.

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**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

1. Organization and Summary of Significant Accounting Policies

Organization (continued)

Translational research is the pre-clinical work that “translates” laboratory discoveries to establish the potential benefit of a new therapy to patients. This research bridges “bench to bedside” and includes the full gamut of pre-clinical work that has to be accomplished successfully before testing in humans will be approved by the FDA. If this translational work is successful, human studies must then be done to demonstrate safety and then proof of concept, i.e. treatment efficacy, in humans. It is estimated that such pre-clinical work can cost upwards of \$1.5 million to \$2 million per project. The costs associated with treatment efficacy studies are much higher than they are to fund the initial discovery phase in the laboratory. For orphan or small market diseases, including retinal diseases, the financial risk of attempting to discover and bring new treatments to market must be reduced before venture capitalists and then biotechnology and pharmaceutical companies are willing to invest. The costs of conducting the FDA-approved clinical trials can only be met by such companies, as the cost of these trials far exceed even the costs of the pre-clinical work. It is here that FFB provides a critical bridge between the laboratory and the marketplace by funding the preliminary research and testing.

- Chatlos Public Health Education Program – FFB publishes a variety of print and online publications that provide information to the public about causes, treatments, cures and preventative methods for retinal degenerative diseases. FFB also provides information relative to lifestyle issues and understanding of retinal diseases.

FFB’s national headquarters is located in Maryland with several offices throughout the country and over 40 volunteer-led groups across the United States dedicated to raising funds, increasing public awareness and providing support to their communities.

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**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

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

Organization (continued)

Foundation Fighting Blindness Clinical Research Institute (FFB CRI), a supporting organization, supports clinical projects and early stage clinical trials for retinal degenerative diseases.

Macular Degeneration International, Inc. (MDI), an affiliated organization, is a nonprofit corporation organized under the laws of the state of Illinois. National Retinitis Pigmentosa Foundation, Inc. (NRPF), an affiliated organization, is a nonprofit corporation organized under the laws of the state of Maryland.

Principles of Consolidation

The consolidated financial statements include the accounts of FFB and FFB CRI (collectively referred to as the Foundation). All significant intercompany balances and transactions between entities have been eliminated in the consolidation; all entities are nonprofit corporations. There was no financial activity for MDI and NRPF for the years ended June 30, 2017 and 2016.

Classification of Net Assets

The Foundation's consolidated financial statements report amounts separately by net asset class:

Unrestricted Net Assets – Unrestricted net assets represent revenues mainly derived from receiving unrestricted contributions, less expenses incurred for public health education, research, including grants and trial related costs, raising contributions, and management support. These amounts are available for board designated purposes as follows:

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**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

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

Classification of Net Assets (continued)

Unrestricted Net Assets (continued)

Operating Reserve – Funds internally-designated by the Board of Directors representing approximately six months of operating expenses, exclusive of grants and clinical trial costs.

Research Opportunities – Funds internally-designated not otherwise needed for operating reserves or related to fixed assets. The purpose of the fund is to support a multi-year research plan as monitored by the ROC of the Board of Directors. The current plan projects an average research expense of \$20 million for the next five fiscal years, funded with existing restricted research funds, new fundraising results and the unrestricted Board designated – Research Opportunities Fund.

Fixed Assets – Funds invested in fixed assets.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent resources from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the Foundation's actions pursuant to those restrictions. Those contributions restricted to the research program are incorporated into the ROC five year research plan.

Permanently Restricted Net Assets – Permanently restricted net assets are subject to donor-imposed restrictions requiring that the original gift be held in perpetuity and that earnings be used for the purposes designated by the donor.

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

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

Classification of Net Assets (continued)

Unrealized and realized gains and losses and interest from investing in income-producing assets may be included in any of these net asset classifications depending on donor restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts held in checking accounts and money market funds not held for investment purposes.

Investments

Investments are composed of government mortgage-backed securities, certificates of deposit, equities, money market funds and cash held for investment purposes and an investment in Sparing Vision, a startup program related investment.

Investments in government mortgage-backed securities, equities and money market funds and cash held for investment purposes are recorded in the accompanying consolidated statements of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between market participants at the measurement date.

The certificates of deposit have original maturities of greater than three months. The certificates of deposit are recorded in the accompanying consolidated financial statements at amortized cost as of June 30th which approximates fair market value. In accordance with guidance from the American Institute of Certified Public Accountants, management has determined that the certificates of deposit are not within the scope of the fair value measurements and disclosure topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

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**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

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

Investments (continued)

On July 19, 2016, FFB CRI provided equity funding in the amount of \$1,052,695 for a subscription of 9,500 preferred class A shares of Sparing Vision, a French company created to develop potential vision saving treatments. FFB CRI has committed to invest up to \$7.5 million in the company based on accomplishments of certain research milestones. The Foundation accounts for its investment in Sparing Vision using the equity method of accounting, and the June 30, 2017 balance was \$870,135.

Fixed Assets

All fixed assets are carried at cost and are depreciated or amortized on a straight-line basis over the following useful lives:

| | |
|-------------------------|-------------|
| Research facility | 11-23 years |
| Furniture and equipment | 3-5 years |
| Leasehold improvements | 3-10 years |

Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs are expensed when incurred.

Grants

The Foundation generally awards grants on an annual or milestone basis. Grants are expensed in the year in which the grant commitment is made to the grantee or the milestone is met, in accordance with the grant term. Grants for renewal years are contingent upon satisfactory progress toward, or completion of, the grant's purpose, as well as funding availability. As a result, renewal years are conditional and not recorded until the year in which the grant commitment is made to the grantee. As of June 30, 2017 and 2016, all grants payable were due within one year.

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

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

Revenue Recognition

Contributions received and unconditional promises to give are measured at their net realizable values and are reported as an increase in the appropriate net asset category. All contributions are considered available for unrestricted use, unless specifically restricted by the donor.

Contributions that are restricted by the donor for a specific time or purpose are reported as temporarily or permanently restricted contributions, based on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Bequests are recognized at the time an unassailable right to the gift has been established and the proceeds are measurable.

Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a market rate commensurate with the risks identified. Amortization of the discount is included in contribution revenue in the accompanying consolidated statements of activities. Gross pledges are reduced in the initial year of the pledge by an estimated amount to reflect that the promise may not be completely fulfilled. Subsequent assessments that promises will not be collected are reflected as bad debt expenses or losses. Conditional pledges are not included as revenue until such time as the conditions are substantially met.

Research patent payments received in advance are deferred until earned and shown as part of deferred revenue in the consolidated statements of financial position.

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

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

Contributed Goods and Services

In accordance with FASB ASC Topic, *Not-for-Profit Entities*, only the value of contributed services that are considered specialized and can be estimated are reflected in these consolidated financial statements. Contributed goods and services are reported in the consolidated statements of activities at the fair value of the goods and services received. Contributed services primarily include donated legal services. Contributed goods primarily include items donated for use at fundraising events and are included in net special events revenue in the consolidated statements of activities. In addition, services have been provided to the Foundation by unpaid volunteers. The value of these volunteer services does not qualify for inclusion in these consolidated financial statements and, therefore, has not been recorded.

Functional Expenses

The costs of providing the various programs and activities of the Foundation have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs such as occupancy, depreciation and amortization, and insurance expenditures have been allocated among the various programs and supporting services benefited based on salary estimates by department and other relevant factors. While such estimates are not conducive to precise determination, and actual results could differ from these estimates, management believes the resulting allocations are reasonable.

Fair Value Measurement

FASB ASC Topic 820, *Fair Value Measurement*, defines fair value and establishes a framework for measuring fair value for assets and liabilities that are measured at fair value on a recurring basis. In accordance with

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurement (continued)

the accounting standards for fair value measurement for those assets and liabilities that are measured at fair value on a recurring basis, the Foundation has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument. Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs based on quoted prices (unadjusted) 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 of June 30, 2017 and 2016, the Foundation's investments (excluding certificates of deposit and the investment in Sparing Vision), certain split-interest agreements and deferred compensation investments, as described in Note 12 of these consolidated financial statements, were measured at fair value on a recurring basis and subject to the disclosure requirements of the *Fair Value Measurement* topic of the FASB ASC.

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

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

Management Estimates and Uncertainties

The preparation of the 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 the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Internal Revenue Service has ruled that FFB, FFB CRI, MDI and NRPF are exempt from the payment of taxes on income, except for unrelated business income, under Section 501(c)(3) of the Internal Revenue Code (the IRC). No provision for income taxes is required for the years ended June 30, 2017 and 2016, as the Foundation had no taxable net unrelated business income.

The Foundation performed an evaluation of its uncertainty in income tax for the years ended June 30, 2017 and 2016, 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 June 30, 2017, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Foundation files tax returns. It is the Foundation's policy to recognize interest and/or penalties related to uncertainty in income tax, if any, in income tax expense.

2. Investments

Excess cash balances, operating reserve funds, research opportunity funds, temporarily restricted net assets available for the ROC five-year research plan and permanently restricted net assets are invested. Investments are managed according to the estimated timing of cash flow needs.

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

2. Investments (continued)

As of June 30, 2017 and 2016, investments consisted of the following:

| | 2017 | 2016 |
|---------------------------------------|----------------------|----------------------|
| Cash and money market funds | \$ 7,007,119 | \$ 18,359,488 |
| Government mortgage-backed securities | 82,436,874 | 61,431,170 |
| Certificates of deposit | 10,794,553 | 9,753,927 |
| Investment in Spring Vision | 870,135 | - |
| Equities | - | 591,932 |
| Total Investments | \$101,108,681 | \$ 90,136,517 |

A summary of the return on investments is as follows for the years ended June 30, 2017 and 2016:

| | 2017 | 2016 |
|-------------------------------|-------------------|---------------------|
| Interest and dividends | \$ 4,287,697 | \$ 3,482,125 |
| Net unrealized gains (losses) | (1,778,129) | 875,307 |
| Net realized losses | (2,101,538) | (957,949) |
| Net Investment Income | \$ 408,030 | \$ 3,399,483 |

3. Pledges Receivable

Beginning in May 2014, a donor provided a conditional pledge to match new or incremental gifts restricted to research. Qualifying pledges must be paid on or before June 30, 2021. A matching pledge of \$2,513,923 and \$24,314,803 is included in pledges receivable as of June 30, 2017 and 2016, respectively, with estimated match pledge payments scheduled according to the underlying pledge payment schedule.

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

3. Pledges Receivable (continued)

Pledges receivable are stated at their estimated fair value less a discount of 1% to 1.72%. Gross pledges due beyond one year were reduced by 5% during the year ended June 30, 2016, the initial year of the pledges, to reflect that the promises may not be completely fulfilled.

As of June 30, 2017 and 2016, pledges receivable were expected to be collected as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|----------------------|----------------------|
| Due in less than 1 year | \$ 10,336,599 | \$ 17,758,597 |
| Due in 1 to 5 years | 25,653,498 | 32,803,437 |
| Due after 5 years | <u>87,500</u> | <u>2,301,818</u> |
| Total | 36,077,597 | 52,863,852 |
| Less: Discount to present value | <u>(626,398)</u> | <u>(835,988)</u> |
| Net Pledges Receivable | <u>\$ 35,451,199</u> | <u>\$ 52,027,864</u> |

4. Split-Interest Agreements

The Foundation's split-interest agreements include a charitable gift annuity program, several charitable remainder unitrusts (CRUTs), a charitable remainder trust (CRAT) and a pooled income fund.

A charitable gift annuity is a contract under which a charity, in return for a transfer of cash, marketable securities or other property, agrees to pay a fixed sum of money for a period measured by one or two lives. The contributed property, given irrevocably, becomes a part of the Foundation's assets, and the payments are a general obligation of the Foundation. The Foundation is a member of the American Council on Gift Annuities (the Council) and uses the current uniform gift annuity rates suggested and adopted by the Council on January 1, 2012. These uniform gift annuity rates range from 4.4% to 9.0% for ages 60 or greater.

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

4. Split-Interest Agreements (continued)

The Foundation has fully insured these annuities with highly rated insurance companies to protect its risk. In addition, the Foundation has separate reserve accounts held in order to comply with certain state insurance laws. The balance of the separate reserve accounts totaled \$200,000 for the years ended June 30, 2017 and 2016. The annuities and required reserves are included in charitable gift annuity investments and reserves in the accompanying consolidated statements of financial position. The Foundation has also designated additional reserves as protection against potential changes in reinsurance regulations in various states. These reserves are included in investments in the consolidated statements of financial position.

In addition, the Foundation has received several CRUTs and a CRAT, collectively referred to as the Trusts. The assets of the Trusts are held in trust by a third-party trustee and represent resources not in the Foundation's possession or control. Upon the death of the surviving beneficiary of the Trusts, the remainder of the Trusts' assets will be distributed to the Foundation for general use.

The present value of the estimated future cash flows (as measured by the fair value of the underlying assets, net of the estimated liabilities) was recognized as an asset and contribution revenue at the date the Trusts were established. Trusts are revalued annually by calculating the present value of the annuity or expected future distributions using published life expectancy tables. At June 30, 2017 and 2016, the discount rate used was 2.4% and 1.8%, respectively. The assets are included in temporarily restricted beneficial interests in remainder trusts in the accompanying consolidated statements of financial position. The value of the Trusts increased by \$189,169 for the year ended June 30, 2017 and decreased by \$747,503 for the year ended June 30, 2016, which is included in planned giving in the accompanying consolidated statements of activities.

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

4. Split-Interest Agreements (continued)

The pooled income fund (the Fund) enables donors to pool gifts into one trust. The assets of the Fund are held in trust by a third-party trustee and represent resources not in the possession, but under the control, of the Foundation. Upon the death of the surviving beneficiary, the Fund's principal passes to the Foundation for general use, unless stipulated for specific purposes by the donor.

The liability for the present value of deferred gifts is based upon actuarial estimates and assumptions regarding the duration of the agreements and rates to discount the liability. At June 30, 2017 and 2016, the discount rate was 1.0%. The fair values of the Fund's assets, as well as the related obligations to the beneficiaries, are reflected in the consolidated statements of financial position in prepaid expenses and other assets and accounts payable and accrued expenses.

5. Fixed Assets

The fixed assets were composed of the following at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|---|--------------------|--------------------|
| Research facility | \$3,577,430 | \$3,577,430 |
| Furniture and equipment | 1,405,107 | 1,275,242 |
| Leasehold improvements | <u>867,698</u> | <u>899,645</u> |
| Total Fixed Assets | 5,850,235 | 5,752,317 |
| Less: Accumulated Depreciation and Amortization | <u>(4,292,057)</u> | <u>(4,121,906)</u> |
| Net Fixed Assets | <u>\$1,558,178</u> | <u>\$1,630,411</u> |

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

5. Fixed Assets (continued)

The Foundation leases land from a university on which the Foundation has built a research facility. The Foundation has an agreement with the university for the university to use the research facility. The agreement results in annual rental income of approximately \$32,000 for the Foundation. The agreement, which is subject to the continuation of an existing operating grant or obtaining substitute grant monies, expires on September 30, 2032. Upon termination of the agreement, the research facility and all improvements become the property of the university.

6. Commitments and Contingencies

Operating Lease

The Foundation leases office space throughout the country. All leases are non-cancellable and expire August 2020 (MD), November 2021 (CA), May 2019 (NC), June 2018 (IL) and December 2020 (NY).

Under the terms of certain office space leases, the lessors provided the Foundation with rent abatements and tenant improvement allowances toward leasehold construction costs. In addition, one lease requires a letter of credit of \$52,963 as a security deposit.

Under GAAP, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and construction allowance in the accompanying consolidated statements of financial position.

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

6. Commitments and Contingencies (continued)

Operating Lease (continued)

The future minimum rental payments required under the operating leases are as follows as of June 30, 2017:

| <u>For the Year Ending June 30,</u> | |
|---|--------------------|
| 2018 | \$ 760,945 |
| 2019 | 709,876 |
| 2020 | 681,397 |
| 2021 | 258,565 |
| 2022 | <u>45,267</u> |
| Total Future Minimum Lease Payments | <u>\$2,456,050</u> |

Occupancy expense totaled \$593,833 and \$633,445 for the years ended June 30, 2017 and 2016, respectively.

Line of Credit

The Foundation has a line of credit with a lending institution in the amount of \$3,000,000, with an interest rate equal to the lending institution's prime rate. The line of credit is available for general Foundation purposes and is available through March 31, 2018. At June 30, 2017 and 2016, the line of credit had no outstanding balance and there were no drawdowns on the line of credit during the fiscal years ended June 30, 2017 and 2016.

Research Grants

FFB has entered into grants with conditional renewal options including milestones. As of June 30, 2017, total conditional research commitments, including milestone contracts, were \$47,500,000, which will be recognized in the financial statements when the conditions have been substantially met.

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

7. Concentration of Risk

The Foundation maintains its cash and cash equivalents, including those held for investment purposes, with certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of June 30, 2017 and June 30, 2016, there was approximately \$6,940,000 and \$10,500,000 in excess of the FDIC insured limit, respectively, which was needed to cover outstanding checks and upcoming grant payments. The Foundation monitors the creditworthiness of these institutions and has not experienced any losses on such accounts. Management believes it is not exposed to significant risk on its cash and cash equivalents.

The Foundation received approximately 18% and 46% of its total public support from its Board of Directors and national trustees during the years ended June 30, 2017 and 2016, respectively. Approximately 52% and 57% for the years ended June 30, 2017 and 2016, respectively, of the Foundation's net pledges receivable is from one donor.

8. Permanently and Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|
| Research | \$ 104,445,360 | \$ 112,448,720 |
| Chatlos Public Health Education Program | 70,000 | - |
| General operations in future period | <u>6,423,157</u> | <u>5,983,956</u> |
| Total | <u>\$ 110,938,517</u> | <u>\$ 118,432,676</u> |

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. Permanently and Temporarily Restricted Net Assets (continued)

Net assets are released from donor restrictions when expenses are incurred to satisfy restricted purposes or by the occurrence of other events, as specified by donors, or when future pledges for general operations are due.

Purpose restrictions accomplished or time restrictions met were as follows during the years ended June 30, 2017 and 2016:

| | 2017 | 2016 |
|--|---------------|---------------|
| Research | \$ 15,157,673 | \$ 15,276,081 |
| Chatlos Public Health Education Program | 344,000 | 240,000 |
| General operations – satisfaction of time | 330,818 | 208,270 |
| Total | \$ 15,832,491 | \$ 15,724,351 |

Permanently restricted net assets generate investment earnings to support the following as of June 30, 2017 and 2016:

| | 2017 | 2016 |
|--------------------|--------------|--------------|
| Research | \$ 500,000 | \$ 500,000 |
| General operations | 2,756,748 | 2,690,000 |
| Total | \$ 3,256,748 | \$ 3,190,000 |

9. Thrift Savings Plan

The Foundation maintains a thrift savings plan under the provisions of Section 403(b) of the IRC. The plan is available to all full-time, active employees. The Foundation may make matching contributions to the plan,

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

9. Thrift Savings Plan (continued)

not to exceed a set percentage of the participant's compensation. Participants vest in the contributions made by the Foundation over a four-year period. The Foundation's contributions to the plan totaled \$112,277 and \$122,572 for the years ended June 30, 2017 and 2016, respectively.

10. Deferred Compensation

The Foundation has a deferred compensation plan for its senior staff. The plan is a nonqualified retirement plan under Section 457 of the IRC. Under the terms of the agreement, participants may elect to defer salary until retirement, as allowed under the law, and are vested under the Foundation's policies. The Foundation did not make any contributions to the deferred compensation plan during the years ended June 30, 2017 and 2016.

11. Related Party Transactions

Given the Foundation's singular focus on inherited retinal degenerative diseases and the limited pool of relevant experts to serve as advisors and investigators, there is some overlap in the Foundation's operations and the research supporting the Foundation's mission. The Foundation's policy to mitigate this overlap requires that all grant applications be subject to independent evaluation by appropriate peer reviewers prior to grant commitment. The review and final approval process excludes anyone directly associated with the application, and anyone, including scientific experts, who, in any other way, has a recognizable conflict of interest.

During the years ended June 30, 2017 and 2016, the Foundation committed funds in the amount of \$6,749,001 and \$7,306,122, respectively, to research projects whose principal research investigators also serve as scientific experts.

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

12. Fair Value Measurement

The following table summarizes the Foundation's assets measured at fair value on a recurring basis as of June 30, 2017:

| | <u>Total 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> |
|---|-----------------------------|--|--|--|
| Assets: | | | | |
| Investments: | | | | |
| Cash and money market funds | \$ 7,007,119 | \$ 7,007,119 | \$ - | \$ - |
| Government mortgage-backed securities | 82,436,874 | - | 82,436,874 | - |
| Pooled income fund | 24,653 | 24,653 | - | - |
| Beneficial interests in remainder trusts | 6,003,320 | - | - | 6,003,320 |
| Investments for deferred compensation | 931,790 | 931,790 | - | - |
| Reserves for charitable gift annuity | <u>200,000</u> | <u>200,000</u> | <u>-</u> | <u>-</u> |
| Total Assets | <u>\$ 96,603,756</u> | <u>\$ 8,163,562</u> | <u>\$ 82,436,874</u> | <u>\$ 6,003,320</u> |

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

12. Fair Value Measurement (continued)

The following table summarizes the Foundation's assets measured at fair value on a recurring basis as of June 30, 2016:

| | <u>Total 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> |
|---|-----------------------------|--|--|--|
| Assets: | | | | |
| Investments: | | | | |
| Cash and money market funds | \$ 18,359,488 | \$18,359,488 | \$ - | \$ - |
| Government mortgage-backed securities | 61,431,170 | - | 61,431,170 | - |
| Equities | 591,932 | 591,932 | - | - |
| Pooled income fund | 35,554 | 35,554 | - | - |
| Beneficial interests in remainder trusts | 5,814,151 | - | - | 5,814,151 |
| Investments for deferred compensation | 746,532 | 746,532 | - | - |
| Reserves for charitable gift annuity | <u>200,000</u> | <u>200,000</u> | <u>-</u> | <u>-</u> |
| Total Assets | <u>\$ 87,178,827</u> | <u>\$19,933,506</u> | <u>\$ 61,431,170</u> | <u>\$ 5,814,151</u> |

Continued

**FOUNDATION FIGHTING BLINDNESS, INC.
AND AFFILIATES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

12. Fair Value Measurement (continued)

The Foundation used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Cash and money market funds – Cash and money market funds include cash deposits in investment accounts, permanently restricted cash to be invested and funds held in money market accounts. These are priced using independent market prices in the primary trading market and are classified within Level 1 of the valuation hierarchy based on the availability of quotes for identical assets. Reserves for charitable gift annuity include money market funds that are classified as Level 1 of the valuation hierarchy.

Equities – Securities are valued at quoted market prices for identical assets in active markets and are classified within Level 1 of the valuation hierarchy. *Government mortgage-backed securities* – Securities are valued based on yields currently available for comparable securities from issuers with similar credit ratings and are classified within Level 2 of the valuation hierarchy.

Pooled income fund and investments for deferred compensation – The pooled income fund and investments held for deferred compensation consist primarily of fixed-income and equity mutual funds that are valued at the net asset value of shares held by the Foundation at year-end and are based on quoted market prices in active markets. Accordingly, these investments are classified within Level 1 of the valuation hierarchy.

Beneficial interests in remainder trusts – See Note 4 for the significant assumptions used to estimate the fair value of the Foundation's beneficial interests in remainder trusts, which are classified within Level 3 of the valuation hierarchy.

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

12. Fair Value Measurement (continued)

A roll forward of the fair value measurements using unobservable inputs (Level 3) is as follows for the years ended June 30, 2017 and 2016:

| | <u>Beneficial Interests in Remainder Trusts</u> |
|---|---|
| Balance, June 30, 2015 | \$6,561,654 |
| Change in value of existing split-interest agreements | <u>(747,503)</u> |
| Balance, June 30, 2016 | 5,814,151 |
| Change in value of existing split-interest agreements | <u>189,169</u> |
| Balance, June 30, 2017 | <u><u>\$6,003,320</u></u> |

The change in value of split-interest agreements, as well as new split-interest agreements, is included in planned giving in the accompanying consolidated statements of activities and pertains to split-interest agreements held at each respective year-end.

13. Endowment Funds

The Foundation's endowment is composed of two donor-restricted funds, which are shown as permanently restricted net assets in the accompanying consolidated financial statements. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. As of June 30, 2017 and 2016, permanently restricted net assets totaled \$3,256,748 and \$3,190,000, respectively, and the income earned on these net assets was restricted by the donors for research or general operations. Earnings from the fund totaled \$17,173 and \$23,270 in 2017

**FOUNDATION FIGHTING BLINDNESS, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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13. Endowment Funds (continued)

and 2016, respectively, and were recorded as an increase in temporarily restricted net assets. Investment earnings on the endowment fund are expended for the restricted purpose required in the year earned.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the preservation of the fund, the purposes of the donor-restricted endowment fund and the investment policies of the Foundation in making a determination to appropriate or accumulate donor-restricted endowment funds.

Return Objectives, Risk Parameters and Strategies Employed

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while protecting the principal balance. The objective of the permanently restricted assets is the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016**

13. Endowment Funds (continued)

**Return Objectives, Risk Parameters and Strategies Employed
(continued)**

preservation of capital. To achieve the return objectives within the risk parameters, the Foundation has elected to invest in debt of the United States government or its agencies and United States government or United States government agency mortgage-backed securities. As of June 30, 2017 and 2016, permanently restricted funds of \$513,400 and \$2,250,000, respectively, were held as cash until invested.

**Spending Policy and How the Investment Objectives Relate to
Spending Policy**

The earnings on the permanently restricted net assets are released from restricted funds and are used in accordance with donor stipulations described in Note 8. From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2017 or 2016.

14. Reclassifications

Certain amounts for 2016 have been reclassified to conform to the 2017 consolidated financial statement presentation.

15. Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 10, 2017, the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the consolidated financial statements.