

**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**



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## Independent Auditor's Report

To the Board of Directors and Officers of  
The National Federation of the Blind T/A Blind Federation of America

We have audited the accompanying consolidated financial statements of The National Federation of the Blind (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The National Federation of the Blind as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Rosen, Sapperstein & Friedlander, LLC*

Rosen, Sapperstein & Friedlander, LLC  
Baltimore, Maryland  
March 6, 2019

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**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
December 31, 2018**

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ASSETS

Cash and cash equivalents	\$ 3,644,364
Prepaid expenses	367,785
Notes receivable	44,826
Other receivables	749,791
Investments	16,303,368
Other investments - life insurance	3,257,124
Property and equipment - net	96,091
Intangible assets - net	<u>1,471,063</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 25,934,412</u></b>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 635,170
Deferred revenue	190,000
Accrued annuity benefit	<u>28,130</u>

<b>TOTAL LIABILITIES</b>	<b><u>853,300</u></b>
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NET ASSETS

Without donor restrictions	22,315,379
With donor restrictions	<u>2,765,733</u>

<b>TOTAL NET ASSETS</b>	<b><u>25,081,112</u></b>
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<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 25,934,412</u></b>
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See Accompanying Notes to Financial Statements

**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
For the Year Ended December 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Public support			
Contributions	\$ 18,262,927	\$ 129,709	\$ 18,392,636
Donated services	5,519,868	-	5,519,868
Government grants and contract services	1,871,910	-	1,871,910
Net assets released from restrictions	<u>149,682</u>	<u>(149,682)</u>	<u>-</u>
Total public support	<u>25,804,387</u>	<u>(19,973)</u>	<u>25,784,414</u>
Revenue			
Sales - independence products and publications	533,064	-	533,064
Net investment income (loss)	<u>(1,410,694)</u>	<u>(116,693)</u>	<u>(1,527,387)</u>
Total revenue	<u>(877,630)</u>	<u>(116,693)</u>	<u>(994,323)</u>
<b>TOTAL REVENUES, GAINS         AND OTHER SUPPORT</b>	<u>24,926,757</u>	<u>(136,666)</u>	<u>24,790,091</u>
<b>EXPENSES</b>			
Program services			
Blindness integration	10,933,315	-	10,933,315
Civil rights, advocacy and self-organization	6,616,797	-	6,616,797
Nonvisual access systems	<u>5,498,355</u>	<u>-</u>	<u>5,498,355</u>
Total program services	<u>23,048,467</u>	<u>-</u>	<u>23,048,467</u>
Supporting services			
Management and general	599,861	-	599,861
Fundraising	<u>1,529,125</u>	<u>-</u>	<u>1,529,125</u>
Total supporting services	<u>2,128,986</u>	<u>-</u>	<u>2,128,986</u>
<b>TOTAL EXPENSES</b>	<u>25,177,453</u>	<u>-</u>	<u>25,177,453</u>
<b>CHANGES IN NET ASSETS</b>	(250,696)	(136,666)	(387,362)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>22,566,075</u>	<u>2,902,399</u>	<u>25,468,474</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 22,315,379</u>	<u>\$ 2,765,733</u>	<u>\$ 25,081,112</u>

See Accompanying Notes to Financial Statements

**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA  
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
For the Year Ended December 31, 2018**

	PROGRAM SERVICES				SUPPORTING SERVICES			GRAND TOTAL
	Blindness Integration	Civil Rights, Advocacy and Self- Organization	Nonvisual Access Systems	Total	Management and General	Fundraising	Total	
Volunteer services	\$ 1,169,168	\$ 1,169,168	\$ 584,584	\$ 2,922,920	\$ -	\$ -	\$ -	\$ 2,922,920
Salaries	1,402,497	1,308,997	1,636,246	4,347,740	280,499	46,750	327,249	4,674,989
Payroll taxes and related expenses	224,511	209,544	261,929	695,984	44,902	7,484	52,386	748,370
Total salaries and related expenses	2,796,176	2,687,709	2,482,759	7,966,644	325,401	54,234	379,635	8,346,279
Supplies	83,252	71,662	382,824	537,738	20,490	3,268	23,758	561,496
Postage and shipping	734,317	15,600	15,415	765,332	1,775	740,737	742,512	1,507,844
Printing and publications	3,995,291	34,555	18,738	4,048,584	2,420	708,777	711,197	4,759,781
Travel	29,131	367,977	66,137	463,245	16,109	57	16,166	479,411
Conferences and conventions	77,957	225,628	22,640	326,225	5,051	5,240	10,291	336,516
Professional fees	146,287	2,666,994	375,760	3,189,041	108,182	8,003	116,185	3,305,226
Telephone	6,790	8,976	10,282	26,048	1,888	312	2,200	28,248
Occupancy	184,992	132,672	169,237	486,901	10,797	6,965	17,762	504,663
Donated media	2,596,948	-	-	2,596,948	-	-	-	2,596,948
Awards and grants	44,092	313,972	481,946	840,010	-	-	-	840,010
Information technology	153,372	61,260	821,559	1,036,191	21,728	735	22,463	1,058,654
Equipment rental, maintenance and repair	10,316	8,771	11,133	30,220	571	152	723	30,943
Equipment, Braille and Technology Center	-	-	110,255	110,255	-	-	-	110,255
Royalty fees	-	-	21,495	21,495	1,131	-	1,131	22,626
Data processing	52,717	-	-	52,717	52,717	-	52,717	105,434
Other	399	387	21,060	21,846	6,438	-	6,438	28,284
Total expenses before depreciation and amortization	10,912,037	6,596,163	5,011,240	22,519,440	574,698	1,528,480	2,103,178	24,622,618
Depreciation	21,278	20,634	21,278	63,190	645	645	1,290	64,480
Amortization	-	-	465,837	465,837	24,518	-	24,518	490,355
<b>TOTAL EXPENSES</b>	<b>\$ 10,933,315</b>	<b>\$ 6,616,797</b>	<b>\$ 5,498,355</b>	<b>\$ 23,048,467</b>	<b>\$ 599,861</b>	<b>\$ 1,529,125</b>	<b>\$ 2,128,986</b>	<b>\$ 25,177,453</b>

See Accompanying Notes to Financial Statements

**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2018**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Changes in net assets	\$ (387,362)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	64,480
Amortization	490,355
Unrealized loss on investments	2,711,280
Realized gain on investments	(273,576)
Decrease (increase) in assets:	
Other receivables	(411,342)
Prepaid expenses	341,371
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	40,444
Deferred revenue	<u>45,536</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,621,186</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash paid for investments	(4,302,727)
Proceeds from the sale of investments	2,049,405
Purchase of property and equipment	(18,000)
Payments received on notes receivable	<u>11,056</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,260,266)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	360,920
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,283,444</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,644,364</u>

See Accompanying Notes to Financial Statements

**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2018**

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**NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of the Organization**

The National Federation of the Blind T/A Blind Federation of America (NFB), headquartered in Baltimore, Maryland, is a nonprofit corporation established for the purpose of integrating the blind into society on the basis of equality.

KNFB Reader, LLC (KNFB) was established in 2014 as a wholly-owned subsidiary of NFB. KNFB was formed to acquire, further develop, and market software applications (apps) to be of assistance and benefit to blind persons, in further pursuit of the purpose of the NFB.

**Consolidation**

In accordance with the Consolidation topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, all wholly-owned entities are to be consolidated with the parent entity. These consolidated financial statements include the accounts of the NFB and KNFB (collectively the "Federation"). All significant intercompany balances and transactions have been eliminated in the consolidation of these financial statements.

**Basis of Presentation**

The Federation's consolidated financial statements are prepared on the accrual method of accounting, which recognizes revenues and the related assets when earned, and expenses and the related liabilities when obligations are incurred.

The Federation follows the Presentation of Financial Statements for Not-for-Profit Entities topic of the FASB Accounting Standards Codification. This pronouncement sets standards for the financial statement presentation for not-for-profit organizations. The Federation is required to report information regarding its financial position and activities according to two (2) classes of net assets: without donor restrictions and with donor restrictions based on the existence or absence of donor imposed restrictions. Net assets with donor restrictions consist of assets whose use is limited by donor imposed time and/or purpose restrictions.

Donor restricted net assets include scholarship funds and other funds where the donor has restricted that the income and the corpus be used for scholarships and other specific purposes; and other scholarship funds where the donor has restricted that only the income may be used for the scholarships and the corpus may not be invaded. Donor restricted contributions whose restrictions are met in the same reporting period are reported as revenue within net assets without donor restrictions.



**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2018**

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**NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition**

The Federation has adopted the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification. In accordance with this standard, contributions received are recorded as without donor restrictions or with donor restrictions. All contributions are considered to be available without restrictions unless specifically restricted by the donor. Contributions received in advance of donor restrictions being satisfied are included in deferred revenue.

Contract services relate to fee-for-service arrangements. Under these contracts, the Federation receives fees payable monthly, quarterly, or based on specific services provided. Contract services are recognized on a monthly or quarterly straight-line basis, over the course of the period specified in the contract.

Government grants include monies received from government agencies in support of specific program activities. The grants serve as reimbursements of program costs incurred by the Federation. Revenue is recognized when there is reasonable assurance that the Federation has complied with the requirements of the grants and receipt of funds is reasonably assured.

The Federation sells independence products and publications as a part of its mission to help blind individuals increase their independence and carry out daily activities. Revenue is recognized at the point of sale and is reported net of sales returns and allowances.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, the Federation considers all highly liquid investments purchased with an original maturity of three (3) months or less to be a cash equivalent.

**Financial Credit Risk**

The Federation maintains its cash balances at several financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to insured limits. As of December 31, 2018, the Federation's cash balances were in excess of these insured limits. Management believes that the Federation is not exposed to any significant credit risk with respect to its cash balances. In addition, the Federation generally maintains investment balances in excess of the Securities Investor Protection Corporation (SIPC) limits.

**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2018**

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**NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Credit Risk (Continued)**

The Federation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and those changes could materially affect the value reported in the consolidated financial statements.

**Notes Receivable**

Balances in notes receivable represent loans to organizations and individuals who support the Federation's mission of encouraging independence and supporting entrepreneurship among the blind. Interest is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Management evaluates the creditworthiness of each borrower prior to the issuance of these loans. Past due accounts are determined by management based on historical experience and other relevant factors. On a periodic basis, the Federation writes off uncollectible balances, after exhausting reasonable collection efforts. Based on management's historical experience, management considers all notes receivable to be fully collectible; therefore, no allowance for doubtful accounts has been reflected in the consolidated financial statements.

**Other Receivables**

Other receivables represent monies due from grantors and other third parties. The Federation considers various factors as of the date of the consolidated financial statements in evaluating the credit quality of these balances, including historical collection experience and assessment of the counterparties' ability to repay their obligations. Based on these factors, management considers other receivables to be fully collectible; therefore, no allowance for doubtful accounts has been reflected in the consolidated financial statements.

**Investments**

The Federation's investment portfolio is classified as trading and is reported at its fair value, based on quoted market prices at December 31, 2018. Realized and unrealized holding gains and losses on trading securities with readily determinable market values are included in investment income in the consolidated statements of activities. Other investments are recorded under the equity or cost methods of accounting, as appropriate, in accordance with Investments – Equity and Joint Ventures Investments topic of the FASB Accounting Standards Codification. When the Federation owns less than a 20% interest and does not exert significant influence over the investment entity, the Federation applies the cost method of accounting. Under the cost method, any dividends received are recognized as investment income and a gain or loss is only reported when the investment is sold. When the Federation has a controlling interest and can exert significant influence, the Federation applies the equity method of accounting. Under the equity method of accounting, the Federation increases its investments for cash contributions and its share of the investee's net income and decreases its investments for cash distributions and its share of the investee's net loss. The fair value of these investments has not been estimated because it is not practicable to estimate fair value on these investments. See Note 6 for a discussion of these other investments and Note 7 for a discussion of fair value measurements.

**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2018**

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**NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment**

Property and equipment is recorded at cost, net of accumulated depreciation. Major additions and betterments are charged to the asset accounts while maintenance and repairs which do not improve or extend the lives of the assets are expensed when incurred. Contributed property is recorded at fair value at the date of donation. Upon the sale or other disposition of assets, the cost and related accumulated depreciation are removed from the respective accounts, and any resulting gain or loss are included in operations. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the respective assets.

**Intangible Assets**

In accordance with the topic Intangibles – Goodwill and Other of the FASB Accounting Standards Codification, identified intangible assets other than goodwill are amortized over their estimated useful lives. Definite-lived intangible assets are amortized using the straight-line method over their estimated period of benefit. Prior to 2018, management estimated the useful lives of these assets ranging from sixteen to thirty years. During 2018, based on changes in technology advances and customer needs, management has re-evaluated the estimated useful lives of these assets. Effective in 2018, management estimates the remaining useful lives of these assets to be four years. As a result of the reduction in the estimated useful lives, additional amortization expensed for the year ended December 31, 2018 amounted to approximately \$348,000. See Note 4.

The Federation makes certain estimates and assumptions in order to determine the fair value of net assets and liabilities, including, among other things, projected cash flows, cost of capital and growth rates, which could significantly impact the reported value of intangible assets. Estimating future cash flows requires significant judgment and the projections may vary from cash flows eventually realized. No indicators of impairment were identified in 2018.

**Valuation of Long-Lived Assets**

The Federation accounts for the valuation of long-lived assets under the Impairment or Disposal of Long-Lived Assets topic of the FASB Accounting Standards Codification. Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and evaluated at least annually. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated statement of financial position. Management believes the value of long-lived assets exceed their carrying value as of December 31, 2018.

**THE NATIONAL FEDERATION OF THE BLIND  
T/A BLIND FEDERATION OF AMERICA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2018**

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**NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accrued Annuity Benefit**

The Federation had established a charitable gift annuity program where donors may contribute assets to the Federation and in return receive a guaranteed fixed income for life. The Federation maintains a segregated investment account to hold reserves required for gift annuity instruments. As of December 31, 2018, the balance in this reserve account amounted to \$110,339 and is adequate to cover the accrued annuity benefit liability. The Federation recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability. The accrued annuity benefit liability represents monies restricted until the annuity is satisfied.

Annuity benefit liabilities are recorded for the required life annuity payments at the present value of expected future cash payments discounted using interest rates at the date of gift and actuarial assumptions. The calculation of the liability includes a donor's estimated life expectancy. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced as payments are made to the donor. This program has since been discontinued. The accrued annuity benefit liability at December 31, 2018 includes future payments for beneficiaries who entered the program prior to its termination.

**Income Taxes**

The Federation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). There were no income taxes paid on unrelated business activities for the year ended December 31, 2018.

**Accounting for Uncertainty in Income Taxes**

The Federation adopted the Accounting for Uncertainty in Income Taxes topic of the FASB Accounting Standards Codification. The standard requires the recognition and measurement of uncertain tax positions taken or expected to be taken by the Federation in the preparation of its tax returns. The Federation determines whether it is more-likely-than-not that a certain tax position will be sustained upon examination by a taxing authority. If an uncertain tax position is more-likely-than-not to be sustained, an estimate of the potential effect is recognized in the consolidated financial statements and the uncertain tax position is required to be disclosed. Per the Federation's evaluation as of December 31, 2018, including all prior tax years subject to examination, it was determined that no material adjustments were required in the consolidated financial statements for tax positions more-likely-than-not to be sustained upon examination by a taxing authority. The Federation believes it is no longer subject to income tax examinations for years prior to 2015.

**Donated Services and Media**

The Federation has adopted the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification in the recognition of donated services. Donated services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services and media are recorded as both public support and program services; therefore, there is no effect on the change in net assets.

**THE NATIONAL FEDERATION OF THE BLIND  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2018**

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**NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Donated Services and Media (Continued)**

Donated services consist of volunteer services, primarily for the orientation and adjustment to blindness and blindness advocacy. Volunteer services are recorded on the basis of time spent at rates paid by other organizations for comparable services. The volunteer services revenue for the year ended December 31, 2018 amounted to approximately \$2,922,900 and is included in donated services in the consolidated statements of activities, and the expenditure is included in volunteer services in the consolidated statements of functional expenses.

The Federation has adopted the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification in the recognition of donated media. Management employs an independent third party to assist in the valuation of the Federation's exposure to the public through various means including internet, radio, television time and printed materials in publications using the advertising value equivalency metric. The donated media revenue for the year ended December 31, 2018 amounted to approximately \$2,597,000 and is included in donated services in the consolidated statements of activities, and the expenditure is included in donated media in the consolidated statements of functional expenses.

The Federation operates from the National Center for the Blind which allows free usage of facilities for organizations that serve the blind.

**Functional Expense Allocations**

The consolidated financial statements report certain costs that are attributable either to one or more program functions and / or to one or more program functions in conjunction with one or more supporting functions. Such costs are reported according to their natural expense category and then allocated to the appropriate functional category on a reasonable basis that is consistently applied. Salaries are allocated on the basis of estimates of time and effort; occupancy costs are allocated on the basis of square footage; and other natural costs are allocated on the basis of management identification based on observation and professional evaluation of the direct benefit of the cost to a particular program function or supporting function. If a joint cost is incurred for an activity that includes both informational messages and fundraising appeals, that cost is also evaluated on the basis of the content of the messages, reasons for distributing the messages, and the audience to whom the message is distributed.

**New Accounting Standard Adopted**

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The Federation has adopted this ASU as of and for the year ended December 31, 2018. The major changes include (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring that all nonprofits present an analysis of expenses by function and nature, and disclose a summary of the allocation methods used to allocate costs, (d) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (e) presenting investment return net of external and direct internal investment expenses, and (f) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

**THE NATIONAL FEDERATION OF THE BLIND  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2018**

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**NOTE 1 – NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**New Accounting Standard Adopted (Continued)**

As a result, the Federation changed its presentation of its net asset classes and expanded the disclosures as required by the ASU.

**Subsequent Events**

Events that occurred subsequent to December 31, 2018 have been evaluated by the Federation's management for potential recognition or disclosure in the consolidated financial statements through the date of the independent auditor's report, which is the date the consolidated financial statements were available to be issued. The Federation did not have any material recognizable subsequent events during this period.

**NOTE 2 – NOTES RECEIVABLE**

Notes receivable at December 31, 2018 consist of the following:

<b><u>Business Loans</u></b> - Low interest loan program for business or job related purposes. The notes bear interest ranging from 3% to 6% per year and are secured by various business equipment and real property. The loans mature at various dates through July 2020.	\$ 10,028
<b><u>TriPlay, Inc.</u></b> - Unsecured note receivable due from an unrelated third party. The note bears interest at .43% and the Federation has extended the due date of the note into 2019.	<u>34,798</u>
Total Notes Receivable	<u>\$ 44,826</u>

**NOTE 3 – OTHER RECEIVABLES**

Other receivables at December 31, 2018 consist of the following:

Contracts receivable	\$ 287,500
Accounts receivable	372,534
Grants receivable	<u>89,757</u>
Total Other Receivables	<u>\$ 749,791</u>

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**NOTE 4 – INTANGIBLE ASSETS**

During 2015, the Federation's senior secured notes receivable from Media Arc, Inc. (Media Arc) were exchanged for the assignment of the rights of the KNFB hand held reading technology, as part of the dissolution and eventual sale of Media Arc. As a result of this transaction, the Federation acquired several intangible assets. As noted in Note 1, management reduced the estimated useful lives of these assets; therefore, incurring additional amortization expense for the year ended December 31, 2018. The Federation's intangible assets at December 31, 2018 consist of the following:

KNFB Reader App	\$ 2,072,262
Patents	195,351
Other intangibles	<u>97,668</u>
	2,365,281
Less: Accumulated amortization	<u>(894,218)</u>
Intangible assets - net	<u><u>\$ 1,471,063</u></u>

Amortization expense on intangible assets for the year ended December 31, 2018 amounted to \$490,355. Estimated annual amortization expense for each of the ensuing years through December 31, 2021 amounts to approximately \$490,000.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2018 consists of the following:

Office furniture and equipment	\$ 1,434,458
Computer equipment	<u>537,075</u>
	1,971,533
Less: Accumulated depreciation	<u>(1,875,442)</u>
Property and equipment - net	<u><u>\$ 96,091</u></u>

Depreciation expense for the year ended December 31, 2018 amounted to \$64,480.

**NOTE 6 – OTHER INVESTMENTS**

The Federation makes program-related investments to further its purpose of integrating the blind into society on the basis of equality. Such investments are made primarily to accomplish the Federation's program purpose rather than to produce income. As a result, changes in investments as a result of the investee's income or loss are reported as program costs in the consolidated statement of activities.

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**NOTE 6 – OTHER INVESTMENTS (Continued)**

The Federation has invested \$125,000 in E.A.S.Y., LLC (EASY), to develop and market products to enhance the technologies for freehand tactile graphics. The Federation considers its investment in EASY to be a program-related investment made for the purpose of insuring that the blind have tools to produce, edit and communicate using freehand tactile drawings. The Federation has a 20% interest and has the ability to exert significant influence. The investment is accounted for under the equity method of accounting. EASY's investment balance as of December 31, 2018 amounted to \$98,477.

The following is a summary of EASY's condensed financial information as of and for the year ended December 31, 2018:

	<u>EASY</u>
Assets	\$ 43,340
Liabilities	\$ 94,556
Equity	<u>(51,216)</u>
Total liabilities and equity	<u>\$ 43,340</u>
Revenue	\$ 45,171
Expenses	<u>(67,737)</u>
Net income (loss)	<u>\$ (22,566)</u>

The Federation has invested \$350,000 in Aira Tech Corp. (Aira), to support and encourage the development of advanced wearable technology and services that facilitate access to information. The Federation considers its investment in Aira to be a program-related investment made for the purpose of significantly enhancing the everyday experience of blind individuals. The Federation has a less than one percent interest and does not have the ability to exert significant influence. The investment is accounted for under the cost method of accounting. Aira's investment balance as of December 31, 2018 amounted to \$350,000.

The Federation has invested in other investment activities using the cost method of accounting. The balance in these investment activities as of December 31, 2018 amounted to \$9,980.

**NOTE 7 – FAIR VALUE MEASUREMENTS**

The Federation accounts for the fair value of its investments under the Fair Value Measurement and Disclosure topic of the FASB Accounting Standards Codification, which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).



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**NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)**

The three (3) levels of the fair value hierarchy under this guidance are described as follows:

**Level 1**

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Federation has the ability to access.

**Level 2**

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3**

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

*Accrued annuity benefit:* Valued at the present value of expected future cash payments discounted using the interest rates at the time of the gift and actuarial assumptions.

*Other investments:* Valued using the equity and cost methods of accounting.

*Mutual funds and corporate bonds:* Valued at quoted prices for identical assets in active markets.

*Government securities:* Valued at quoted prices for similar assets in active markets.

*Alternative investments:* Consists of mutual funds which are illiquid and valued at net asset value (NAV) using daily, monthly and quarterly valuations.

*Investments in life insurance:* Valued at accumulated value, net of surrender charges.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Federation's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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**NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)**

The following table sets forth by level, within the fair value hierarchy, the Federation's assets and liabilities at fair value at December 31, 2018:

<u>Payor Class</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
<u>Assets:</u>				
Corporate bonds	\$ 689,343	\$ -	\$ -	\$ 689,343
Mutual funds	14,101,943	-	-	14,101,943
Alternative investments	-	1,003,625	50,000	1,053,625
Other investments	-	-	458,457	458,457
Investments subtotal	14,791,286	1,003,625	508,457	16,303,368
Other investments - life insurance	-	-	3,257,124	3,257,124
<b>Total Assets at Fair Value</b>	<b><u>\$ 14,791,286</u></b>	<b><u>\$ 1,003,625</u></b>	<b><u>\$ 3,765,581</u></b>	<b><u>\$ 19,560,492</u></b>
<u>Liabilities:</u>				
Accrued annuity benefits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,130</u>	<u>\$ 28,130</u>

There have been no changes in the methodologies used at December 31, 2018. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements.

The following table sets forth a summary of changes in the fair value of the Federation's level 3 assets and liabilities for the year ended December 31, 2018:

	<u>Assets</u>	<u>Liabilities</u>
Balance - beginning of year	\$ 3,480,948	\$ 28,130
Increase in cash surrender value	234,633	-
Purchase of investments	<u>50,000</u>	<u>-</u>
Balance - end of year	<b><u>\$ 3,765,581</u></b>	<b><u>\$ 28,130</u></b>

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**NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)**

The Federation's return on investments for the year ended December 31, 2018 consisted of the following components:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Interest and dividends - net	\$ 765,237	\$ 145,080	\$ 910,317
Gains (losses) on investments:			
Net realized gains	230,101	43,475	273,576
Net change in unrealized losses	(2,243,375)	(305,248)	(2,548,623)
Life insurance - net of premiums	<u>(162,657)</u>	<u>-</u>	<u>(162,657)</u>
Net gains on investments	<u>(2,175,931)</u>	<u>(261,773)</u>	<u>(2,437,704)</u>
Total return on investments	<u>\$ (1,410,694)</u>	<u>\$ (116,693)</u>	<u>\$(1,527,387)</u>

Expenses relating to investment revenue, including custodial fees and investment advisory fees, amounted to \$192,920 for the year ended December 31, 2018 and have been netted against investment income in the accompanying consolidated statements of activities.

**NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions at December 31, 2018 are as follows:

Board designated funds	\$ 510,339
Investment in property and equipment	96,091
Undesignated	<u>21,708,949</u>
Total net assets without donor restrictions	<u>\$ 22,315,379</u>

Board designated funds consist of financial assets designated specifically by the board of directors of the Federation. The board designated funds consist of funds available to cover the annuity benefit obligations and designated furniture and fixture purchases expected to be acquired prior to December 31, 2019.

**NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at December 31, 2018 are as follows:

Scholarship funds	\$ 796,882
Bolotin award	1,761,348
General funds	<u>207,503</u>
Total net assets with donor restrictions	<u>\$ 2,765,733</u>

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**NOTE 10 – NET ASSETS RELEASED FROM RESTRICTIONS**

During the year, net assets with donor restrictions were released for the following purpose:

Scholarships	\$ 59,162
Bolotin award	<u>90,520</u>
Net assets released from restrictions	<u>\$ 149,682</u>

**NOTE 11 – ALLOCATION OF JOINT COSTS**

The Federation incurred joint costs of \$2,819,002 for informational messages and activities that included fundraising appeals. Of those costs, \$1,437,691 was allocated to fundraising expense and \$1,381,311 was allocated to blindness integration. Management based these allocations on an analysis of the content of the messages, reasons for distributing the messages and the audience to whom the messages were distributed.

**NOTE 12 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Federation's financial assets available to meet cash needs for general expenditures within one year of December 31, 2018 are as follows:

Cash and cash equivalents	\$ 3,644,364
Other receivables	749,791
Notes receivable	44,826
Investments	16,303,368
Other investments - life insurance	<u>3,257,124</u>
Total financial assets	23,999,473
Donor imposed restrictions	
Scholarships, Bolotin and General funds	<u>(2,765,733)</u>
Financial assets available to meet cash needs for general expenditures within one year (includes board designated funds)	21,233,740
Board designated funds	<u>(510,339)</u>
Financial assets available to meet cash needs for general expenditures within one year (excludes board designated funds)	<u>\$ 20,723,401</u>

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**NOTE 12 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)**

As part of the Federation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations that come due. In addition, the Federation invests cash in excess of daily requirements in short term investments and has board designated net assets without donor restrictions that could be made available for current operations, if necessary. General expenditures are expenses the Federation expects to disburse for program and supporting services.

**NOTE 13 – EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**

As discussed in Note 1, the Federation adopted ASU 2016-14 as of and for the year ended December 31, 2018. In accordance with the ASU, net assets are classified as net asset without donor restrictions and net assets with donor restrictions. Changes in net assets as a result of adopting the ASU are as follows:

	<u>Previously reported</u>	<u>ASU 2016-14 implementation</u>	<u>As adjusted</u>
Unrestricted net assets as of December 31, 2017	\$ 22,566,075	\$ (22,566,075)	\$ -
Temporarily restricted net assets as of December 31, 2017	2,614,931	(2,614,931)	-
Permanently restricted net assets as of December 31, 2017	287,468	(287,468)	-
Without donor restrictions as of January 1, 2018	-	22,566,075	22,566,075
With donor restriction as of January 1, 2018	<u>-</u>	<u>2,902,399</u>	<u>2,902,399</u>
Total Net Assets as of January 1, 2018	<u>\$ 25,468,474</u>	<u>\$ -</u>	<u>\$ 25,468,474</u>