

AMERICAN BRAIN FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

**AMERICAN BRAIN FOUNDATION
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YEARS ENDED DECEMBER 31, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Brain Foundation
Minneapolis, Minnesota

We have audited the accompanying financial statements of the American Brain Foundation, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Directors
American Brain Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Brain Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 6, 2019

**AMERICAN BRAIN FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,181,474	\$ 2,645,745
Grants and Gifts Receivable	497,549	682,683
Accounts Receivable	95,687	1,532
Other Assets	21,828	104,971
Total Current Assets	2,796,538	3,434,931
EQUIPMENT, NET	136,186	182,301
OTHER LONG-TERM ASSETS		
Funds Held with Others	6,911,291	7,504,430
Grants and Gifts Receivable, Net of Current Portion	1,458,128	1,262,198
Total Other Long-Term Assets	8,369,419	8,766,628
Total Assets	\$ 11,302,143	\$ 12,383,860
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 80,079	\$ 37,690
Grants Payable	723,332	572,554
Related Party Payable	98,373	90,151
Total Current Liabilities	901,784	700,395
LONG-TERM LIABILITIES		
Grants Payable, Net of Current Portion	125,858	24,271
Refundable Advances	1,592	217,542
Total Long-Term Liabilities	127,450	241,813
Total Liabilities	1,029,234	942,208
NET ASSETS		
Without Donor Restrictions:		
Undesignated	3,193,102	3,440,364
With Donor Restrictions	7,079,807	8,001,288
Total Net Assets	10,272,909	11,441,652
Total Liabilities and Net Assets	\$ 11,302,143	\$ 12,383,860

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grants and Gifts	\$ 1,312,089	\$ 1,834,174	\$ 3,146,263
In-Kind Contributions	985,939	-	985,939
Investment Income (Loss)	23,552	(260,930)	(237,378)
Other Revenue	1,156	-	1,156
Net Assets Released from Restrictions	2,494,725	(2,494,725)	-
Total Support and Revenue	4,817,461	(921,481)	3,895,980
 EXPENSE			
Program Expenses	3,229,973	-	3,229,973
Support Services:			
Development	1,019,360	-	1,019,360
General and Administrative	483,181	-	483,181
Total Support Services	1,502,541	-	1,502,541
Total Expense	4,732,514	-	4,732,514
 TOTAL CHANGES IN NET ASSETS BEFORE NONOPERATING INVESTMENT INCOME	84,947	(921,481)	(836,534)
Nonoperating Investment Income (Loss)	(332,209)	-	(332,209)
TOTAL CHANGE IN NET ASSETS	(247,262)	(921,481)	(1,168,743)
Net Assets - Beginning of Year	3,440,364	8,001,288	11,441,652
 NET ASSETS - END OF YEAR	\$ 3,193,102	\$ 7,079,807	\$ 10,272,909

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and Gifts	\$ 634,322	\$ 3,509,714	\$ 4,144,036
In-Kind Contributions	37,438	-	37,438
Investment Income	13,925	400,605	414,530
Other Revenue	752	-	752
Net Assets Released from Restrictions	<u>2,281,171</u>	<u>(2,281,171)</u>	<u>-</u>
Total Support and Revenue	2,967,608	1,629,148	4,596,756
EXPENSE			
Program Expenses	2,108,921	-	2,108,921
Support Services:			
Development	526,532	-	526,532
General and Administrative	<u>310,638</u>	<u>-</u>	<u>310,638</u>
Total Support Services	<u>837,170</u>	<u>-</u>	<u>837,170</u>
Total Expense	<u>2,946,091</u>	<u>-</u>	<u>2,946,091</u>
TOTAL CHANGES IN NET ASSETS BEFORE NONOPERATING INVESTMENT INCOME	21,517	1,629,148	1,650,665
Nonoperating Investment Income	<u>568,784</u>	<u>-</u>	<u>568,784</u>
TOTAL CHANGE IN NET ASSETS	590,301	1,629,148	2,219,449
Net Assets - Beginning of Year	<u>2,850,063</u>	<u>6,372,140</u>	<u>9,222,203</u>
NET ASSETS - END OF YEAR	<u>\$ 3,440,364</u>	<u>\$ 8,001,288</u>	<u>\$ 11,441,652</u>

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	2018						
	Program					General and	
	Research Grants	Research Awards	Public Awareness	Total Program	Development	Administrative	Total
Salaries and Benefits	\$ 125,202	\$ 6,406	\$ 454,225	\$ 585,833	\$ 74,169	\$ 216,989	\$ 876,991
General Office	108	236	5,109	5,453	50,829	25,352	81,634
Software and Maintenance	-	-	9,553	9,553	53,671	60,504	123,728
Professional Fees	14,226	1,211	164,688	180,125	26,523	50,596	257,244
Management and Service Fees	47,873	2,575	173,778	224,226	26,835	88,499	339,560
Meeting and Travel	2,074	2,892	97,629	102,595	53,551	41,241	197,387
Grants and Awards	1,600,001	194,389	5,080	1,799,470	-	-	1,799,470
Depreciation	-	-	46,115	46,115	-	-	46,115
Other Expenses	-	-	-	-	24,446	-	24,446
Subtotal	<u>1,789,484</u>	<u>207,709</u>	<u>956,177</u>	<u>2,953,370</u>	<u>310,024</u>	<u>483,181</u>	<u>3,746,575</u>
In-Kind:							
Professional Fees	-	-	263,770	263,770	697,286	-	961,056
Meeting and Travel	-	-	12,833	12,833	10,601	-	23,434
Grants and Awards	-	-	-	-	1,449	-	1,449
Subtotal	<u>-</u>	<u>-</u>	<u>276,603</u>	<u>276,603</u>	<u>709,336</u>	<u>-</u>	<u>985,939</u>
Total Expenses	<u>\$ 1,789,484</u>	<u>\$ 207,709</u>	<u>\$ 1,232,780</u>	<u>\$ 3,229,973</u>	<u>\$ 1,019,360</u>	<u>\$ 483,181</u>	<u>\$ 4,732,514</u>

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017**

	2017						
	Program			Total Program	Development	General and Administrative	Total
	Research Grants	Research Awards	Public Awareness				
Salaries and Benefits	\$ 78,030	\$ 13,637	\$ 482,453	\$ 574,120	\$ 82,563	\$ 113,554	\$ 770,237
General Office	1,002	99	4,320	5,421	49,485	26,771	81,677
Software and Maintenance	-	-	3,447	3,447	125,835	110	129,392
Professional Fees	16,966	1,629	150,492	169,087	119,508	34,796	323,391
Management and Service Fees	22,837	3,891	151,125	177,853	27,075	94,428	299,356
Meeting and Travel	789	9,251	29,686	39,726	113,223	40,242	193,191
Grants and Awards	890,793	188,803	-	1,079,596	-	105	1,079,701
Depreciation	-	-	30,744	30,744	-	-	30,744
Other Expenses	-	-	-	-	332	632	964
Subtotal	<u>1,010,417</u>	<u>217,310</u>	<u>852,267</u>	<u>2,079,994</u>	<u>518,021</u>	<u>310,638</u>	<u>2,908,653</u>
In-Kind:							
General Office	-	-	19,950	19,950	-	-	19,950
Professional Fees	-	-	8,977	8,977	-	-	8,977
Grants and Awards	-	-	-	-	8,511	-	8,511
Subtotal	<u>-</u>	<u>-</u>	<u>28,927</u>	<u>28,927</u>	<u>8,511</u>	<u>-</u>	<u>37,438</u>
Total Expenses	<u>\$ 1,010,417</u>	<u>\$ 217,310</u>	<u>\$ 881,194</u>	<u>\$ 2,108,921</u>	<u>\$ 526,532</u>	<u>\$ 310,638</u>	<u>\$ 2,946,091</u>

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (1,168,743)	\$ 2,219,449
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	46,115	30,744
Contributions to be Held in Perpetuity	(421,372)	(10,230)
Changes in Funds Held With Others	593,139	(1,107,654)
(Increase) Decrease in Current Assets:		
Grants and Gifts Receivable	(10,796)	(1,362,031)
Accounts Receivable	(94,155)	18,686
Other Assets	83,143	27,434
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	50,611	(167,293)
Grants Payable	252,365	(513,818)
Refundable Advances	(215,950)	20,875
Net Cash Used by Operating Activities	(885,643)	(843,838)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	-	(213,045)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions to be Held in Perpetuity	421,372	10,230
NET DECREASE IN CASH AND CASH EQUIVALENTS	(464,271)	(1,046,653)
Cash and Cash Equivalents - Beginning of Year	2,645,745	3,692,398
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,181,474	\$ 2,645,745

See accompanying Notes to Financial Statements.

**AMERICAN BRAIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The American Brain Foundation (ABF) is a nonprofit corporation established to support vital research into finding cures for brain disease, and is committed to improving patient care, quality of life, and public understanding of brain disease. Its vision is to cure brain disease.

Financial Statement Presentation

Net assets, support, revenue, expenses, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of ABF and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in supporting the mission of ABF.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of ABF or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents

ABF considers all highly liquid investments with an initial maturity of 12 months or less to be cash and cash equivalents. ABF maintains cash in bank accounts which, at times, may exceed federally insured limits. ABF has not experienced any losses in such accounts.

Receivables

Accounts, grants, and gifts receivables are stated at net realizable value. Accordingly, ABF accounts for uncollectible accounts by the reserve method, which is based on management's judgment considering historical information. Payment is required 30 days after receipt of the invoice. Individual accounts past due more than 90 days are individually analyzed for collectability. When all collection efforts have been exhausted, the receivable is written off against the reserve. ABF had no allowance recorded at December 31, 2018 and 2017.

Equipment

Equipment is recorded at original cost. Additions, improvements, or major renewals at or over \$1,000 are capitalized. Any gains or losses on property and equipment retirement are included in the current year operations.

Depreciation is computed using the straight-line method at rates based on estimated service lives and is computed using the straight-line method over a three-year service life.

**AMERICAN BRAIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Held With Others

Funds held with others are made up of reserved investments held at the American Academy of Neurology Institute (Academy) for purposes of earning long-term investment income. These funds are pooled with the investments at the American Academy of Neurology Institute. ABF has two board members that serve on a joint investment committee that oversees and monitors the investment pool. ABF has the ability to liquidate their investments at any time subject to the redemption restrictions on the individual investments. These investments in marketable securities are recorded at fair value and consist primarily of equity funds and corporate bond funds. Investments in certificates of deposit are recorded at cost. In addition, the investments include two limited partnerships that are diversified funds of hedge funds, reported at the estimated fair value of ABF's share of the fund, calculated monthly by the custodian. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility.

Grants Payable

Grants payable consist of awards and grants approved for various research projects and fellowships. Grants payable are recorded at the signing of the contract with both the researcher and the institution. Long-term grants payable are discounted based on the year to be paid.

Grants and Gifts

Grants and contributions received are recorded as support with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions are recognized at fair value when the donor makes a promise to give to ABF that is, in substance, unconditional. Conditional promises to give are recorded when the condition has been satisfied. Until that time, they are reported on the statement of financial position as a refundable advance.

Fair Value Measurement

ABF categorizes its investments measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. 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 in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Investments valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

**AMERICAN BRAIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, ABF may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Donated Goods and Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by American Brain Foundation. Donated goods are valued at market value on the date of donation. There were donated goods valued at \$985,939 and \$37,438, respectively, for the years ended December 31, 2018 and 2017.

Allocation of Expenses

ABF's costs of providing its various services have been classified on a program basis in the statements of activities. Accordingly, certain costs have been allocated among the program and support services benefited. Expenses are charged directly to programs and support services where possible. Remaining expenses are allocated based on actual time spent on programs and support services.

Income Taxes

ABF is organized and operates on a nonprofit basis and its tax-exempt status has been recognized by the Internal Revenue Service under Section 501(c)(3). ABF is classified as an organization which is not private foundations under the Internal Revenue Code (IRC) and charitable contributions by donors are tax deductible. ABF is subject to unrelated business income taxes under the IRC for federal and state tax purposes.

ABF follows the provisions of Financial Accounting Standards Board (FASB) ASC 740-10-25, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. ABF does not believe its financial statements include any uncertain tax positions. ABF's tax returns are subject to review and examination by federal authorities.

**AMERICAN BRAIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Concentrations

ABF also has a potential credit risk in contributions receivable since the balance is due from a limited number of individuals and corporate contributions.

Use of Estimates

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

New Accounting Pronouncement

FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ABF has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net assets or the change in net assets.

Subsequent Events

In preparing these financial statements, ABF has evaluated events and transactions for potential recognition or disclosure through May 6, 2019, the date the financial statements were available to be issued.

**AMERICAN BRAIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 AVAILABILITY AND LIQUIDITY

As part of ABF's liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit. ABF's investment policy establishes a target of holding 40% of the subsequent year's budget in liquid investments. Holding liquid investments in excess of the target is at the discretion of the board of directors and excess balances may be moved to long-term investments. As of December 31 liquid investments held by ABF were as follows:

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 2,181,474	\$ 2,645,745
Succeeding Year's Budget	5,097,276	4,187,856
Liquid Investments Reserve Percentage	40%	40%
Required Reserve	<u>2,038,910</u>	<u>1,675,142</u>
Excess Reserve	<u>\$ 142,564</u>	<u>\$ 970,603</u>

ABF's Operating Reserve Policy establishes a reserve equal to seventy-five percent (75%) of average of the last two years actual expenses and succeeding years operating budget excluding any grants with donor restrictions and non-cash items. The reserve is reported annually to the board of directors. ABF's December 31, 2018 and 2017 reserves were \$3,192,862 and \$3,440,364 respectively. The reserve requirements were \$1,900,782 and \$2,330,157 indicating that ABF exceeded the policy requirements in 2018 and 2017.

ABF held the following financial assets that are available within one year for general expenditures as follows:

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 443,488	\$ 931,311
Accounts Receivable (to be received within 12 months)	593,236	684,215
Short Term Investments (CDs)	1,737,986	1,714,434
Funds Held by Others (available within 12 months)	4,760,108	5,774,619
Donor Restricted Dollars	<u>(3,480,382)</u>	<u>(5,038,777)</u>
Total Financial Assets	<u>\$ 4,054,436</u>	<u>\$ 4,065,802</u>

NOTE 3 GIFTS AND GRANTS RECEIVABLE

Grants and gifts receivable at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Less than One Year	\$ 497,549	\$ 682,683
One to Five Years	<u>1,558,625</u>	<u>1,349,500</u>
Total	2,056,174	2,032,183
Less: Discount to Present Value	<u>(100,497)</u>	<u>(87,302)</u>
Net Contributions Receivable	<u>\$ 1,955,677</u>	<u>\$ 1,944,881</u>

**AMERICAN BRAIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 GIFTS AND GRANTS RECEIVABLE (CONTINUED)

Amounts are presented in the statements of financial position as follows at December 31:

	2018	2017
Current	\$ 497,549	\$ 682,683
Long-Term	1,458,128	1,262,198
Total	\$ 1,955,677	\$ 1,944,881

Contributions expected to be received beyond one year are reflected at the present value of future cash flows at the date of donation using a discount rate of approximately 1% to 3%.

NOTE 4 EQUIPMENT

Equipment consists of the following at December 31:

	2018	2017
Equipment	\$ 223,770	\$ 223,770
Less: Accumulated Depreciation	(87,584)	(41,469)
Net Equipment	\$ 136,186	\$ 182,301

NOTE 5 FUNDS HELD WITH OTHERS

The investments of ABF are pooled with reserve investments at the American Academy of Neurology Institute and are recorded as funds held with others on the statement of financial position. ABF does not own specific underlying investments within the investment pool. The custodian has allocated investments based on percentage held by ABF as follows at December 31:

	2018	2017
Reserves:		
Corporate Bond Funds	\$ 2,197,778	\$ 2,230,179
Equity Funds - Foreign	1,334,147	1,631,232
Equity Funds - Mid-Cap	669,888	771,108
Equity Funds - Large Blend	2,199,102	2,338,433
Funds of Hedge Funds	510,376	533,478
Total Investments	\$ 6,911,291	\$ 7,504,430

Investments in the corporate bond funds, money market mutual funds, equity securities, and equity funds are recorded at fair market value. The funds of hedge funds are recorded at the estimated fair value of ABF's share of the fund, calculated monthly by the custodian.

**AMERICAN BRAIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5 FUNDS HELD WITH OTHERS (CONTINUED)

ABF's share of the investment income on the funds held with others, which includes earnings on the sweep and demand deposit accounts, consists of the following at December 31:

	2018	2017
Interest and Dividends	\$ 282,047	\$ 207,852
Unrealized Gain on Investments	(851,634)	775,462
Total Investment Income	<u>\$ (569,587)</u>	<u>\$ 983,314</u>

The realized and unrealized gains and losses are included in investment income (loss) on the statements of activities. ABF maintains long-term reserve investments through long-term investment holdings. These investments are separated from ABF's general checking and savings accounts. All investment returns on long-term reserve investments are considered nonoperating.

NOTE 6 FAIR VALUE MEASUREMENTS

ABF uses fair value measurements to record fair value adjustments to certain investments and to determine fair value disclosures. For additional information on how ABF measures fair value refer to Note 1 – Summary of Significant Accounting Policies.

In determining the appropriate levels, ABF performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following tables present the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31:

	2018			
	Level 1	Level 2	Level 3	Fair Value
Funds Held With Others:				
Investment Pool Held with Others	\$ -	\$6,911,291	\$ -	\$6,911,291
Total - Fair Value	<u>\$ -</u>	<u>\$6,911,291</u>	<u>\$ -</u>	<u>\$6,911,291</u>
	2017			
	Level 1	Level 2	Level 3	Fair Value
Funds Held With Others:				
Investment Pool Held with Others	\$ -	\$7,504,430	\$ -	\$7,504,430
Total - Fair Value	<u>\$ -</u>	<u>\$7,504,430</u>	<u>\$ -</u>	<u>\$7,504,430</u>

**AMERICAN BRAIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 7 GRANTS PAYABLE

Grants payable include the following at December 31:

	2018	2017
Current Portion of Grants Payable	\$ 723,332	\$ 572,554
Long-Term Portion of Grants Payable	125,858	24,271
Net Grants Payable	\$ 849,190	\$ 596,825
Amounts Due:		
One Year or Less	\$ 723,332	\$ 572,554
One to Five Years	130,832	25,000
Discount to Present Value	(4,974)	(729)
Net Grants Payable	\$ 849,190	\$ 596,825

Grants expected to be paid beyond one year are reflected at the present value of future cash flows using a discount rate of approximately 1% to 3%.

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

ABF net assets that are restricted by donors until actions of ABF or the passage of time as of December 31:

	2018	2017
Education, Research, and Award Funds	\$ 4,693,027	\$ 5,546,982
Operational Support	48,463	538,362
Annual Meeting and Other Programs	187,134	186,133
Total	\$ 4,928,624	\$ 6,271,477

ABF net assets that the donor has stipulated the funds be maintained in perpetuity as of December 31:

	2018	2017
Research Endowments:		
Multiple Sclerosis Endowment	\$ 384,269	\$ 334,905
General Research Endowment	386,648	49,300
Alzheimer's	60,000	60,000
Epilepsy	120,970	120,470
Subtotal	951,887	564,675
Awards	1,199,296	1,165,136
Total	\$ 2,151,183	\$ 1,729,811

Net assets restricted by donors due to time or purpose, in addition with perpetual restrictions, totaled \$7,079,807 and \$8,001,288 as of December 31, 2018 and 2017, respectively.

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NOTE 9 DONOR-RESTRICTED NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by ABF incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows at December 31:

	<u>2018</u>	<u>2017</u>
Education, Research, and Award Funds	\$ 1,918,826	\$ 1,090,033
Operational Support	575,899	1,191,138
Total	<u>\$ 2,494,725</u>	<u>\$ 2,281,171</u>

NOTE 10 ENDOWMENT

ABF's donor-restricted endowment consists of 25 individual funds established to support research and awards and, as required by accounting principles generally accepted in the United States of America, net assets associated with those endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of ABF has determined the presentation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ABF classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

ABF considers the following factors when making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purposes of ABF and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of ABF
7. The investment policies of ABF

ABF 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 seeking to maintain purchasing power of the endowment assets. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 8% over the long-term.

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NOTE 10 ENDOWMENT (CONTINUED)

Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, ABF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ABF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

ABF has a policy of appropriating for distribution each year 5% of its endowment fund's moving average fair value over the prior 12 months through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, ABF considered the long-term expected return on its endowment. Accordingly, over the long-term, ABF expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation.

This is consistent with ABF's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specific term as well as to provide additional real growth through new gifts and investment return. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires ABF to retain as a fund of perpetual duration. Funds with such deficiencies were included in net assets with donor restrictions. These deficiencies, which ABF believes are temporary, resulted from unfavorable market conditions. The board of directors determined that continued appropriations was prudent. There are two individual funds that fall below the level that the donor requires as of December 31, 2018. No such deficiencies existed as of December 31, 2017.

	With Donor Restrictions		Total
	Purpose	Perpetual	
Raymond Adams Endowment Fund for Clinical Research	\$ (24,166)	\$ 337,348	\$ 313,182
Alliance Award Endowment	(220)	26,021	25,801
Total	<u>\$ (24,386)</u>	<u>\$ 363,369</u>	<u>\$ 338,983</u>

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NOTE 10 ENDOWMENT (CONTINUED)

Changes in endowment net assets for the fiscal years ended December 31 consisted of the following:

	<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Purpose</u>	<u>Perpetual</u>	
Balance - December 31, 2016	\$ 828,448	\$ 1,719,581	\$ 2,548,029
Investment Income	372,416	-	372,416
Contributions	-	10,230	10,230
Changes in Donor Restrictions	-	-	-
Appropriation of Endowment Funds	(66,600)	-	(66,600)
Balance - December 31, 2017	<u>1,134,264</u>	<u>1,729,811</u>	<u>2,864,075</u>
Investment Income	(247,129)	-	(247,129)
Contributions	-	421,372	421,372
Appropriation of Endowment Funds	(70,748)	-	(70,748)
Balance - December 31, 2018	<u><u>\$ 816,387</u></u>	<u><u>\$ 2,151,183</u></u>	<u><u>\$ 2,967,570</u></u>

NOTE 11 RELATED PARTY TRANSACTIONS

All employees are employed by the American Academy of Neurology and then leased to ABF. ABF pays all direct costs relating to employees and pays a management fee for services which include: marketing, information systems, legal, management oversight, and program activities. The total amount of services received from the Academy for the years ended December 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Services Provided	\$ 339,560	\$ 299,356
Leased Employees	877,000	770,200
Account Payable	98,373	90,151

ABF in 2018 and 2017 received a \$750,000 and \$950,000 grant, respectively, from the Academy in support of their operations.

ABF in 2018 and 2017 awarded grants to the Academy of \$1,375,000 and \$700,000, respectively, to support clinical research training scholarships. ABF also provided support to the Academy for various awards in 2018 and 2017 totaling \$182,000 and 178,800, respectively. As of December 31, 2018 and 2017, ABF had a payable to the Academy of \$727,500 and \$510,000, respectively, related to these grants.

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NOTE 12 SPLIT-INTEREST AGREEMENTS

ABF is a beneficiary to interest in two gift annuities held at a community foundation in 2017 and one gift annuity held at a community foundation in 2018. One of the gifts was paid out during 2018. The value of the gift annuities at December 31, 2018 and 2017 was \$11,577 and \$63,729 respectively.

ABF is also the beneficiary of other trusts and other assets in situations in which it has not been notified of the interest; ABF's interest may be conditional or revocable; or the value of our interest may not be readily ascertainable. In such circumstances, no contribution receivable has been recorded.