

LAVELLE FUND FOR THE BLIND, INC.

**Financial Statements
for the year ended
December 31, 2013
(Modified Cash Basis)**

Independent Auditor's Report

To the Board of Directors of
Lavelle Fund for the Blind, Inc.

We have audited the accompanying financial statements of Lavelle Fund for the Blind, Inc. which comprise the statement of assets, liabilities and net assets (modified cash basis) as of December 31, 2013 and December 31, 2012 and the related statements of revenue and expenses (modified cash basis) and cash flows (modified cash basis) 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 the modified cash basis of accounting described in note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's 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 audits 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 auditor's 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.

Opinion

In our opinion, the financial statements (modified cash basis) referred to above present fairly, in all material respects, the financial position of Lavelle Fund for the Blind, Inc. as of December 31, 2013 and December 31, 2012 and the results of its revenue and expenses and its cash flows for the years then ended in accordance with the basis of accounting as described in note 2.

Basis of Accounting

As described in note 2, the financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

LAVELLE FUND FOR THE BLIND, INC.

**Statement of Assets, Liabilities and Net Assets
(Modified Cash Basis)**

Assets

	December 31	
	2013	2012
Cash	\$ 81,073	\$ 89,835
Program related investments	1,450,000	250,000
Investments, at fair value	120,594,799	97,568,118
Total assets	\$ 122,125,872	\$ 97,907,953

Liabilities and Net Assets

Liabilities

Due to investment custodian for net investment activity	\$ -	\$ 3,795
Unrestricted net assets	122,125,872	97,904,158
Total liabilities and net assets	\$ 122,125,872	\$ 97,907,953

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.

**Statement of Revenue and Expenses
(Modified Cash Basis)**

	Year Ended	
	December 31	
	<u>2013</u>	<u>2012</u>
Revenue		
Interest	\$ 8,623	\$ 21,728
Dividends	3,550,516	2,225,277
Other revenue (loss)	(18,900)	2,832
Total revenue	<u>3,540,239</u>	<u>2,249,837</u>
Less: Expenses directly related to investments		
Investment management fees	518,702	429,935
Limited partnership fees	81,288	86,137
Federal excise taxes	120,000	40,000
Foreign taxes	<u>52,937</u>	<u>33,881</u>
Revenue available for grants and other expenses	<u>2,767,312</u>	<u>1,659,884</u>
Expenses		
Payroll and related expenses	425,908	407,883
Professional fees	32,845	32,865
Consulting fees	10,150	21,079
Office supplies	2,110	2,499
Office equipment	25,462	10,159
Office enhancements	-	1,676
Rent	38,687	37,560
Travel, conferences and meetings	13,982	47,241
Telephone	3,068	2,653
Utilities	3,698	3,489
Postage	1,920	2,942
Insurance	7,534	6,895
Filing fees	1,500	1,500
Other	<u>22,977</u>	<u>22,579</u>
Total expenses	<u>589,841</u>	<u>601,020</u>
Excess of revenue over expenses before grants paid	2,177,471	1,058,864
Grants paid	<u>4,448,941</u>	<u>4,977,608</u>
(Deficiency) of revenue to cover expenses before other additions	(2,271,470)	(3,918,744)
Other additions		
Realized gain on sale of investments	5,257,298	3,588,879
Change in unrealized value of investments	<u>21,235,886</u>	<u>7,571,363</u>
Increase in unrestricted net assets	<u>24,221,714</u>	<u>7,241,498</u>
Unrestricted net assets, beginning of year	<u>97,904,158</u>	<u>90,662,660</u>
Unrestricted net assets, end of year	<u>\$ 122,125,872</u>	<u>\$ 97,904,158</u>

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.

**Statement of Cash Flows
(Modified Cash Basis)**

	Year Ended	
	December 31	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 24,221,714	\$ 7,241,498
Adjustments to reconcile increase in unrestricted net assets to net cash (used in) operating activities		
Realized (gain) on sale of investments	(5,257,298)	(3,588,879)
Change in unrealized value of investments	(21,235,886)	(7,571,363)
Limited partnership activity	60,841	13,871
(Increase) decrease in due to/from investment custodian for net investment activity	(3,795)	141,945
Program related investments	<u>(1,200,000)</u>	<u>-</u>
Net cash (used in) operating activities	<u>(3,414,424)</u>	<u>(3,762,928)</u>
Cash flows from investing activities		
Purchases of investments	(16,575,861)	(20,609,736)
Proceeds from sales of investments	<u>19,981,523</u>	<u>24,373,066</u>
Net cash provided by investing activities	<u>3,405,662</u>	<u>3,763,330</u>
Net increase (decrease) in cash	(8,762)	402
Cash, beginning of year	<u>89,835</u>	<u>89,433</u>
Cash, end of year	<u>\$ 81,073</u>	<u>\$ 89,835</u>
Supplemental disclosure of cash flow information		
Cash paid for federal excise taxes	<u>\$ 120,000</u>	<u>\$ 40,000</u>

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements****December 31, 2013****(Modified Cash Basis)****Note 1 – Nature of organization**

The Lavelle Fund for the Blind, Inc. (the “Fund”), formerly the Lavelle School for the Blind, began operating a school for the blind in 1904 and was incorporated in 1909. In 1947, the school became a state-chartered and state-funded 4201 school dedicated to serving multi-handicapped children with visual impairments. In 1999, a new entity was created to operate the School. The old entity became the Lavelle Fund for the Blind, Inc.; a charitable foundation that administers grants to benefit the broader community of visually impaired people.

The Fund is dedicated to supporting programs that promote the spiritual, moral, intellectual, and physical development of blind and low-vision people of all ages, together with programs that help people avoid vision loss. Priority is given to agencies that concentrate on serving the New York City metropolitan area. Support also goes to programs serving New York State as a whole, and to a limited number of developing world programs.

The Fund makes grants to a broad range of direct service programs. Support is concentrated on programs that impact the populations served and make measurable progress toward pre-determined goals in a specific timeframe.

Note 2 – Summary of significant accounting policies**Basis of accounting**

The Fund’s policy is to prepare its financial statements on the basis of cash receipts and cash disbursements modified to record investments at fair value, the amount due to or from the investment custodian for purchases and sales of investments, program-related investments and a promissory note receivable. Accordingly, certain revenue and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

Cash equivalents

The Fund considers highly liquid investments with maturities of 90 days or less to be cash equivalents other than the short-term investments included in the investment portfolio.

Investments

Investments are recorded at fair value. The fair values of the short term investments, mutual funds, equities and publicly traded equity limited partnerships are based on publicly quoted market prices. The cost of these investments when sold is determined using the first-in, first-out method.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements (continued)****December 31, 2013****(Modified Cash Basis)****Note 2 – Summary of significant accounting policies (continued)****Investments (continued)**

The investment in the international equities limited partnership is stated at the Fund's equity interest in the underlying net assets, which approximates fair value. The fair value of the limited partnerships is determined by the limited partnership's Manager. Securities for which market quotations are readily available are valued at their current market values in the principal market in which such securities are normally traded. These values are normally determined by (i) the last sales price, if the principal market is the New York Stock Exchange or other securities exchange (or at the mean between the closing "bid" and "asked" price, if there have been no sales on such exchange on that day), or (ii) the most recent bid price, if the principal market is other than an exchange.

Withdrawals from the Fund's international equities limited partnership may be made, in whole or in part, at the end of each month by providing written notice to the investment manager specifying the amount to be redeemed and the redemption date, which written notice shall not be less than thirty days and not more than forty-five days prior to such redemption date. Redemptions must be made in multiples of \$1,000 and the Fund must maintain a capital account in the minimum amount of \$250,000 in the case of redemption in part.

Fair value measurements

Accounting principles generally accepted in the United States of America established a hierarchy that prioritizes the inputs used to measure fair value into three broad levels. Level 1 inputs are defined as quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are defined as observable inputs other than Level 1 prices, such as quoted prices of similar assets, quoted prices in markets with insufficient volume or infrequent transactions (less active markets).

Concentrations of credit risk

The Fund's financial instruments that are potentially exposed to concentrations of credit risk consist of cash, investments and a promissory note receivable. The Fund places its cash with what it believes to be quality financial institutions. The Fund has not experienced any losses in such accounts to date. The Fund invests in short-term investments, mutual funds, equities, publicly traded equity limited partnerships and an international equity limited partnership. Investments are exposed to various risks such as interest rate, market volatility, liquidity and credit. Due to the level of uncertainty related to the foregoing risks, it is reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position at December 31, 2013. The Fund routinely assesses the financial strength of its cash and investment portfolio. The Fund monitors the collectibility of the promissory note receivable. As a consequence, the Fund believes no significant concentrations of credit risk exist with respect to its cash, investments and promissory note receivable.

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)

December 31, 2013

(Modified Cash Basis)

Note 2 – Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions regarding the fair value of the investments reported in the financial statements. Actual results could differ from these estimates.

Subsequent events

The Fund has evaluated events and transactions for potential recognition or disclosure through April 14, 2014, which is the date the financial statements were available to be issued.

Note 3 – Investments

As of December 31, 2013 and 2012, the investments consist of the following:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 5,031,123	\$ 5,031,123	\$ 5,881,959	\$ 5,881,959
Mutual funds				
Equity fund	18,402,780	28,904,585	16,257,818	21,224,409
Equities				
Common stocks	52,521,189	78,997,841	50,157,402	61,492,253
Real estate investment trust	275,201	295,015	219,567	267,600
Corporate bonds	-	-	169,720	176,103
Limited partnerships				
Equities – publicly traded	396,662	1,094,130	462,347	1,052,287
International equities	5,244,213	6,272,105	6,931,560	7,473,507
Total	\$ 81,871,168	\$ 120,594,799	\$ 80,080,373	\$ 97,568,118

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)

December 31, 2013

(Modified Cash Basis)

Note 3 – Investments (continued)

For assets measured at fair value on a recurring basis as of December 31, 2013 and December 31, 2012, accounting standards require quantitative disclosures about the fair value measurements separately for each class of assets as follows:

<u>Description</u>	<u>Fair value measurements at December 31, 2013</u>		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Short-term investments	\$ 5,031,123	\$ 5,031,123	\$ -
Mutual funds			
Equity fund	28,904,585	28,904,585	-
Equities			
Common stocks	78,997,841	78,997,841	-
Real estate investment trust	295,015	295,015	-
Limited partnerships			
Equities – publicly traded	1,094,130	1,094,130	-
International equities	<u>6,272,105</u>	<u>-</u>	<u>6,272,105</u>
Total	<u>\$ 120,594,799</u>	<u>\$ 114,322,694</u>	<u>\$ 6,272,105</u>

<u>Description</u>	<u>Fair value measurements at December 31, 2012</u>		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Short-term investments	\$ 5,881,959	\$ 5,881,959	\$ -
Mutual funds			
Equity fund	21,224,409	21,224,409	-
Equities			
Common stocks	61,492,253	61,492,253	-
Real estate investment trust	267,600	267,600	-
Corporate bonds	176,103	176,103	-
Limited partnerships			
Equities – publicly traded	1,052,287	1,052,287	-
International equities	<u>7,473,507</u>	<u>-</u>	<u>7,473,507</u>
Total	<u>\$ 97,568,118</u>	<u>\$ 90,094,611</u>	<u>\$ 7,473,507</u>

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)
December 31, 2013
(Modified Cash Basis)

Note 3 – Investments (continued)

The following is a reconciliation of the Fund's Level 2 investment for the year ended December 31, 2013:

Fair value, December 31, 2012	\$ 7,473,507
Investment return	114,577
Realized gain	310,726
Change in unrealized value	485,942
Investment management fees	(81,267)
Foreign taxes	(31,380)
Withdrawals/distributions	<u>(2,000,000)</u>
Fair value, December 31, 2013	<u>\$ 6,272,105</u>

Note 4 – Commitments

As of December 31, 2013, the Board of Trustees had approved grants payable in future years amounting to \$7,623,127. Such grants are subject to the satisfaction of stipulated conditions and performance by the intended recipients before payment

Note 5 – Lease agreement

Commencing January 1, 2007, the Fund entered into a lease for office space, which expires December 31, 2016. The monthly rent payments were initially \$2,700 and are subject to a 3% increase annually. Rent expense totaled \$38,687 for the year ended December 31, 2013 and \$37,560 for the year ended December 31, 2012.

The following is a summary of the required annual lease payments:

<u>Year</u>	<u>Amount</u>
2014	\$ 39,848
2015	41,043
2016	<u>42,275</u>
Total	<u>\$ 123,166</u>

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements (continued)
December 31, 2013
(Modified Cash Basis)****Note 6 – Retirement plans****SEP-IRA**

The Fund has a Simplified Employee Pension – Individual Retirement Accounts (SEP-IRA) retirement plan for all eligible employees. The Fund makes a contribution to the plan of 8% of each eligible employee's annual salary. In addition, the Fund makes a dollar-for-dollar matching contribution of the amount contributed by each employee to the 403(b) plan (see below) up to a maximum of 4% of an employee's annual salary, to the SEP IRA. The total expense for the years ended December 31, 2013 and December 31, 2012 totaled \$39,115 and \$37,083, respectively.

403(b) Annuity plan

The Fund also has a 403(b) tax-deferred annuity plan for all employees. Employees may contribute to the plan an amount not to exceed the annual limit established by the Internal Revenue Code. During the years ended December 31, 2013 and December 31, 2012, the Fund did not contribute to the 403(b) defined contribution plan.

Note 7 – Program related investments

In 2013, the Fund renegotiated the terms of two related but distinct program-related loan investments to nonprofit fiscal intermediaries to support the development of a low-cost retinal imaging system by Brien Holden Vision Diagnostics, Inc.: a Delaware for-profit corporation in which an Australian-based nonprofit organization named the Brien Holden Vision Institute owns a controlling interest. Brien Holden Vision Diagnostics, Inc., was formerly an independent Delaware for-profit limited partnership called "Quantum Catch, LLC." The new loans, like the old ones that they replace, are in the amounts \$100,000 and \$150,000. The Fund is entitled to receive simple interest on the unpaid principal amounts of these loans at the rate of 2% per year, with the interest being calculated on the basis of a 365-day year. Both the principal of the loans and any unpaid accrued interest are payable in full on December 31, 2015 (in the case of the \$100,000 loan) and December 31, 2016 (in the case of the \$150,000 loan). As of December 31, 2013, no principal or interest payments had been made to the Fund.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements (continued)****December 31, 2013****(Modified Cash Basis)****Note 8 – Line of credit**

During December 2011, the Fund entered into an agreement with Lavelle School for the Blind, Inc. (the "School") whereby the School can borrow up to a maximum amount of \$3,500,000 from the Fund under the terms of a line of credit (a program related investment). The line of credit bears zero interest and expires on December 31, 2014. Advances shall only be made quarterly and upon approval by the Fund's Treasurer. As of December 31, 2013, the Fund had advanced \$1,200,000 to the School. Such amount is included in program related investments in the statement of assets, liabilities and net assets.

Note 9 – Tax status

The Fund is exempt from federal income tax under Section 501(c)(3) and is classified as a private foundation under Section 509(a) of the Internal Revenue Code. The Fund is subject to federal excise tax on its net investment income.

As of December 31, 2013, no amounts have been recognized for uncertain income tax positions taken. In addition, the Fund's tax returns for 2010 and forward are subject to the usual review by the appropriate taxing authorities.