

LAVELLE FUND FOR THE BLIND, INC.

**Financial Statements
for the year ended
December 31, 2015
(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 and net assets (modified cash basis) as of December 31, 2015 and December 31, 2014 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 in the first paragraph on the previous page present fairly, in all material respects, the financial position of Lavelle Fund for the Blind, Inc. as of December 31, 2015 and December 31, 2014 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.

Condon O'Meara McHugh & Donnelly LLP

LAVELLE FUND FOR THE BLIND, INC.

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

Assets

| | December 31 | |
|-----------------------------|-----------------------|-----------------------|
| | 2015 | 2014 |
| Cash | \$ 293,312 | \$ 229,724 |
| Program related investments | 387,794 | 2,950,000 |
| Investments, at fair value | 108,805,935 | 124,154,199 |
| Distribution receivable | - | 93,416 |
| Total assets | \$ 109,487,041 | \$ 127,427,339 |

Net Assets

| | | |
|--------------------------------|-----------------------|-----------------------|
| Unrestricted net assets | \$ 109,487,041 | \$ 127,427,339 |
|--------------------------------|-----------------------|-----------------------|

LAVELLE FUND FOR THE BLIND, INC.

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

| | Year Ended December 31 | |
|--|-----------------------------------|-----------------------|
| | <u>2015</u> | <u>2014</u> |
| Revenue | | |
| Interest | \$ 21,692 | \$ 13,035 |
| Dividends | 3,232,722 | 4,245,732 |
| Other revenue (loss) | <u>(9,052)</u> | <u>(563)</u> |
| Total revenue | 3,245,362 | 4,258,204 |
| Less: Expenses directly related to investments | | |
| Investment management fees | 577,547 | 608,257 |
| Limited partnership fees | - | 15,819 |
| Federal excise taxes | 261,149 | 210,000 |
| Foreign taxes | <u>19,884</u> | <u>24,572</u> |
| Revenue available for grants and other expenses | <u>2,386,782</u> | <u>3,399,556</u> |
| Expenses | | |
| Payroll and related expenses | 468,107 | 430,716 |
| Professional fees | 47,164 | 38,813 |
| Consulting fees | 10,961 | 28,115 |
| Office supplies | 3,260 | 2,923 |
| Office equipment | 20,543 | 12,832 |
| Office enhancements | - | 3,387 |
| Rent | 41,043 | 39,848 |
| Travel, conferences and meetings | 41,829 | 17,367 |
| Telephone | 3,378 | 3,419 |
| Utilities | 4,251 | 3,817 |
| Postage | 2,260 | 822 |
| Insurance | 9,524 | 7,400 |
| Filing fees | 1,500 | 1,500 |
| Other | <u>21,000</u> | <u>21,847</u> |
| Total expenses | <u>674,820</u> | <u>612,806</u> |
| Excess of revenue over expenses before grants and scholarships | 1,711,962 | 2,786,750 |
| Grants and scholarships | <u>8,277,940</u> | <u>4,418,555</u> |
| (Deficiency) of revenue to cover expenses before other addition (deduction) | (6,565,978) | (1,631,805) |
| Other addition (deduction) | | |
| Realized gain on sale of investments | 9,375,530 | 11,878,235 |
| Change in unrealized value of investments | <u>(20,749,850)</u> | <u>(4,944,963)</u> |
| Increase (decrease) in unrestricted net assets | <u>(17,940,298)</u> | <u>5,301,467</u> |
| Unrestricted net assets, beginning of year | <u>127,427,339</u> | <u>122,125,872</u> |
| Unrestricted net assets, end of year | <u>\$ 109,487,041</u> | <u>\$ 127,427,339</u> |

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.

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

| | Year Ended | |
|--|--------------------------|--------------------------|
| | December 31 | |
| | <u>2015</u> | <u>2014</u> |
| Cash flows from operating activities | | |
| Increase (decrease) in unrestricted net assets | \$ (17,940,298) | \$ 5,301,467 |
| Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash (used in) operating activities | | |
| Realized (gain) on sale of investments | (9,375,530) | (11,878,235) |
| Change in unrealized value of investments | 20,749,850 | 4,944,963 |
| Limited partnership activity | - | (17,462) |
| Program related investments | 2,562,206 | (1,500,000) |
| (Increase) decrease in distribution receivable | 93,416 | (93,416) |
| Net cash (used in) operating activities | <u>(3,910,356)</u> | <u>(3,242,683)</u> |
| Cash flows from investing activities | | |
| Purchases of investments | (43,855,464) | (31,815,577) |
| Proceeds from sales of investments | 47,829,408 | 35,206,911 |
| Net cash provided by investing activities | <u>3,973,944</u> | <u>3,391,334</u> |
| Net increase in cash | 63,588 | 148,651 |
| Cash, beginning of year | <u>229,724</u> | <u>81,073</u> |
| Cash, end of year | <u>\$ 293,312</u> | <u>\$ 229,724</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid for federal excise taxes | <u>\$ 261,149</u> | <u>\$ 210,000</u> |

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements
December 31, 2015
(Modified Cash Basis)****Note 1 – Nature of organization**

The Lavelle Fund for the Blind (the “Fund”) is a charitable grant-making foundation dedicated primarily to supporting programs that assist New York State and New York City area residents who are blind or visually impaired live independent and productive lives. While priority is generally given to programs in the greater New York metropolitan area, the Fund also considers grant requests geared to preventing, treating, and, where possible, reversing blindness and vision loss globally.

The Lavelle Fund is an outgrowth of the Lavelle School of the Blind, which was founded in 1904 and incorporated in 1909. In 1947, the School became a state-funded and-chartered 4201 school dedicated to serving children with multiple disabilities, including visual impairment. In 1999, the assets used to operate the school were transferred to a separate corporation, called the Lavelle School for the Blind. Much of the Lavelle School’s endowment was retained by the original corporation, which was renamed the Lavelle Fund for the Blind and rededicated to benefit the larger community of people who are blind or visually impaired.

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 distribution 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, 2015
(Modified Cash Basis)****Note 2 – Summary of significant accounting policies (continued)****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. As of December 31, 2015 and 2014, all of the Fund's investments are deemed to be Level 1 assets.

Concentrations of credit risk

The Fund's financial instruments that are potentially exposed to concentrations of credit risk consist of cash and investments. 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 and equities. 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 assets and net assets at December 31, 2015. The Fund routinely assesses the financial strength of its cash and investment portfolio. As a consequence, the Fund believes no significant concentrations of credit risk exist with respect to its cash, investments and program related investments.

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 20, 2016, which is the date the financial statements were available to be issued.

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)
December 31, 2015
(Modified Cash Basis)

Note 3 – Commitments

Grants payable at December 31, 2015 was \$12,725,114. Payments are scheduled for future years as follows:

| <u>Year</u> | <u>Amount</u> |
|----------------------|----------------------|
| 2016 | \$ 3,530,428 |
| 2017 | 1,781,569 |
| 2018 and thereafter | <u>7,413,117</u> |
| Total grants payable | <u>\$ 12,725,114</u> |

Included in the future grant commitments listed above is the Brother Kearney Scholarship program which has a current maximum commitment of \$6,620,015. Actual annual payout is a function of the numbers of such eligible students recruited by partner colleges and the extent of each student's last-dollar scholarship need. Based on historical experience, it is estimated that the Lavelle Fund will pay out approximately \$2.6 million as follows: (1) \$329,414 in 2016, (2) \$290,000 in 2017, and (3) \$1,980,586 in 2018 and thereafter.

Note 4 – Investments

As of December 31, 2015 and 2014, the investments consist of the following:

| | <u>2015</u> | | <u>2014</u> | |
|------------------------------|----------------------|-----------------------|----------------------|-----------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Short-term investments | \$ 16,055,347 | \$ 16,055,347 | \$ 13,738,616 | \$ 13,738,616 |
| Mutual funds | | | | |
| Equity fund | 24,921,309 | 33,055,327 | 18,234,853 | 27,745,816 |
| Equities | | | | |
| Common stocks | 54,533,386 | 59,127,721 | 56,812,101 | 80,217,974 |
| Real estate investment trust | 267,075 | 567,540 | 834,362 | 1,352,423 |
| Preferred stock | - | - | 625,613 | 637,490 |
| Limited partnerships | | | | |
| Equities – publicly traded | <u>-</u> | <u>-</u> | <u>129,986</u> | <u>461,880</u> |
| Total | <u>\$ 95,777,117</u> | <u>\$ 108,805,935</u> | <u>\$ 90,375,531</u> | <u>\$ 124,154,199</u> |

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements (continued)
December 31, 2015
(Modified Cash Basis)****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 \$41,043 for the year ended December 31, 2015 and \$39,848 for the year ended December 31, 2014. The minimum lease payments due in 2016 total \$42,275.

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, 2015 and December 31, 2014 totaled \$39,164 and \$39,317, 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, 2015 and December 31, 2014, 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, were 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. As of December 31, 2015, the \$100,000 loan has been paid in full. The remaining principal of the \$150,000 loan was paid in full during January 2016.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements (continued)
December 31, 2015
(Modified Cash Basis)****Note 7 – Program related investments (continued)**

In 2015, the Fund approved a concessionary, program-related-investment (“PRI”) loan to the Central Association for the Blind and Visually Impaired (CABVI) in Utica, NY for a warehouse construction project. This expanded warehouse capacity will lay the groundwork for CABVI providing competitive paying jobs, with benefits, to approximately 15 working-age persons who are blind. The loan is in the amount of \$250,000. The loan will be repaid in equal quarterly installments of principal and simple interest at a fixed rate of 1% calculated on the unpaid balance of the loan for a period of five years and is secured by a second mortgage on certain property owned by CABVI. Both the principal of the loan and any unpaid accrued interest are payable in full on August 15, 2020. As of December 31, 2015, \$12,206 of the principal has been paid to the Fund.

Note 8 – Line of credit (program related investment)

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, 2019. Advances shall only be made quarterly and upon approval by the Fund’s Treasurer. As of December 31, 2015, the Fund had advanced \$2,790,000 to the School. During April 2016, the Fund’s Board of Directors approved the forgiveness of all amounts due from the School under the line of credit effective December 31, 2015. In connection therewith an expense, totaling \$2,790,000, has been included in grants and scholarships in the accompanying statement of revenue and expenses for the year ended December 31, 2015.

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.