

**LAVELLE FUND FOR THE BLIND, INC.**

**Financial Statements  
for the year ended  
December 31, 2016  
(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, 2016 and December 31, 2015 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, 2016 and December 31, 2015 and the results of its activities and its cash flows for the years then ended in accordance with the basis of accounting as described in note 2.

***Basis of Accounting***

We draw attention to note 2 of the financial statements which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting which is a 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 McGinty & Donnelly LLP*

## LAVELLE FUND FOR THE BLIND, INC.

Statement of Assets and Net Assets  
(Modified Cash Basis)

## Assets

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Cash	\$ 71,678	\$ 293,312
Program-related investments	188,666	387,794
Investments, at fair value	<u>112,855,541</u>	<u>108,805,935</u>
<b>Total assets</b>	<b><u>\$ 113,115,885</u></b>	<b><u>\$ 109,487,041</u></b>

## Net Assets

<b>Unrestricted net assets</b>	<b><u>\$ 113,115,885</u></b>	<b><u>\$ 109,487,041</u></b>
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See notes to financial statements.

## LAVELLE FUND FOR THE BLIND, INC.

Statement of Revenue and Expenses  
(Modified Cash Basis)

	<u>Year Ended</u> <u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<b>Revenue</b>		
Interest	\$ 17,466	\$ 21,692
Dividends	1,831,233	1,896,023
Other (loss)	-	(9,052)
Returned grants	<u>189,077</u>	<u>-</u>
Total revenue	2,037,776	1,908,663
Less: Expenses directly related to investments		
Investment management fees	492,379	577,547
Federal excise taxes	78,936	261,149
Foreign taxes	<u>25,342</u>	<u>19,884</u>
Revenue available for grants and other expenses	<u>1,441,119</u>	<u>1,050,083</u>
<b>Expenses</b>		
Payroll and related expenses	521,275	468,107
Professional fees	48,968	47,164
Consulting fees	10,940	10,961
Office supplies	3,126	3,260
Office equipment	22,346	20,543
Office enhancements	55,906	-
Rent	83,460	41,043
Travel, conferences and meetings	8,209	41,829
Telephone	3,435	3,378
Utilities	4,314	4,251
Moving expenses	16,050	-
Dues, subscriptions and publications	15,961	10,998
Insurance	9,215	9,524
Other	<u>12,713</u>	<u>13,762</u>
Total expenses	<u>815,918</u>	<u>674,820</u>
Excess of revenue over expenses before grants and scholarships	<u>625,201</u>	<u>375,263</u>
<b>Grants</b>	4,090,368	7,995,991
<b>Scholarships</b>	<u>414,562</u>	<u>281,949</u>
Total grants and scholarships	<u>4,504,930</u>	<u>8,277,940</u>
(Deficiency) of revenue to cover expenses before other additions (deduction)	<u>(3,879,729)</u>	<u>(7,902,677)</u>
<b>Other additions (deduction)</b>		
Realized gain on sale of investments	5,479,250	10,712,229
Change in unrealized value of investments	<u>2,029,323</u>	<u>(20,749,850)</u>
Total other additions (deductions)	<u>7,508,573</u>	<u>(10,037,621)</u>
Increase (decrease) in unrestricted net assets	3,628,844	(17,940,298)
Unrestricted net assets, beginning of year	<u>109,487,041</u>	<u>127,427,339</u>
Unrestricted net assets, end of year	<u>\$ 113,115,885</u>	<u>\$ 109,487,041</u>

See notes to financial statements.

## LAVELLE FUND FOR THE BLIND, INC.

Statement of Cash Flows  
(Modified Cash Basis)

	Year Ended December 31	
	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Increase (decrease) in unrestricted net assets	\$ 3,628,844	\$ (17,940,298)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash (used in) operating activities		
Realized (gain) on sale of investments	(5,479,250)	(10,712,229)
Change in unrealized value of investments	(2,029,323)	20,749,850
Program-related investments	199,128	2,562,206
Decrease in distribution receivable	-	93,416
Net cash (used in) operating activities	<u>(3,680,601)</u>	<u>(5,247,055)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(47,184,887)	(42,518,765)
Proceeds from sales of investments	<u>50,643,854</u>	<u>47,829,408</u>
Net cash provided by investing activities	<u>3,458,967</u>	<u>5,310,643</u>
<b>Net increase (decrease) in cash</b>	<b>(221,634)</b>	<b>63,588</b>
<b>Cash, beginning of year</b>	<u><b>293,312</b></u>	<u><b>229,724</b></u>
<b>Cash, end of year</b>	<u><b>\$ 71,678</b></u>	<u><b>\$ 293,312</b></u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for federal excise taxes	<u>\$ 78,936</u>	<u>\$ 261,149</u>

See notes to financial statements.

**LAVELLE FUND FOR THE BLIND, INC.****Notes to Financial Statements  
December 31, 2016  
(Modified Cash Basis)****Note 1 – Nature of organization**

The Lavelle Fund for the Blind, Inc. (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 Fund is a beneficiary and successor of the Lavelle School of the Blind (the “School”), 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, Inc. 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 and program-related investments. 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 value of the short term investments, mutual funds and equities 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, 2016  
(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, 2016 and December 31, 2015, 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, equities and bonds. 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, 2016. 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 and 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.

Reclassifications

Certain items in the 2015 financial statements have been reclassified for comparative purposes only.

Subsequent events

The Fund has evaluated events and transactions for potential recognition or disclosure through May 24, 2017, 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, 2016**  
**(Modified Cash Basis)**

**Note 3 – Commitments**

Grants commitments at December 31, 2016 amounted to \$14,522,312. Included in the future grant commitments is the Brother Kearney Scholarship program, which has a current maximum commitment of \$7,255,453. Actual annual payout is a function of the numbers of eligible students recruited by partner colleges and the extent of each student's last-dollar scholarship need. Historically, the Fund has paid out approximately 30% of its theoretical, maximum commitment, per year to the scholarship program. The commitment to the Brother Kearney Scholarship program ends in 2023.

Payments are scheduled for future years as follows:

<u>Year</u>	<u>Grants</u>	<u>Scholarships</u>	<u>Total</u>
2017	\$ 4,016,194	\$ 498,455	\$ 4,514,649
2018	2,366,158	435,000	2,801,158
2019	794,507	285,000	1,079,507
2020 and thereafter	90,000	6,036,998	6,126,998
Total	<u>\$ 7,266,859</u>	<u>\$ 7,255,453</u>	<u>\$ 14,522,312</u>

**Note 4 – Grants and scholarships expense**

Total grants and scholarships expense recognized in the years ended December 31, 2016 and December 31, 2015 for the Fund's top three program areas amounted to \$4,270,680 and \$8,032,040, respectively.

<u>Primary Program Focus</u>	<u>2016</u>	<u>2015</u>
Medical eye care	\$ 1,958,947	\$ 3,048,779
Vision rehabilitation	1,158,487	1,390,857
Education	738,684	3,310,455
Education: Brother Kearney Scholarship Program	414,562	281,949
Other	234,250	245,900
Total	<u>\$ 4,504,930</u>	<u>\$ 8,277,940</u>

Grants and scholarships paid in 2016 and 2015 were as follows:

<u>Geography served</u> <u>Grants and Scholarships</u>	<u>2016</u>	<u>2015</u>
Domestic	\$ 2,566,811	\$ 5,642,683
International	1,938,119	2,635,257
Total	<u>\$ 4,504,930</u>	<u>\$ 8,277,940</u>

**LAVELLE FUND FOR THE BLIND, INC.**

**Notes to Financial Statements (continued)**  
**December 31, 2016**  
**(Modified Cash Basis)**

**Note 5 – Investments**

As of December 31, 2016 and December 31, 2015, the investments consist of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term investments	\$ 24,878,238	\$ 24,878,238	\$ 16,055,347	\$ 16,055,347
Mutual funds				
Equity fund	23,700,829	31,736,485	24,921,309	33,055,327
Index fund	5,044,803	4,971,799	-	-
Equities				
Common stocks	43,951,221	50,773,869	54,533,386	59,127,721
Real estate investment trust	<u>222,309</u>	<u>495,150</u>	<u>267,075</u>	<u>567,540</u>
Total	<u>\$ 97,797,400</u>	<u>\$ 112,855,541</u>	<u>\$ 95,777,117</u>	<u>\$ 108,805,935</u>

**Note 6 – Lease agreement**

Commencing January 1, 2007, the Fund entered into a lease for office space which was to expire December 31, 2016. The monthly rent payments were initially \$2,700 subject to 3% annual increases. During May 2016, the Fund signed an amendment to lease and relocation agreement for new office space in the same building, which expires July 31, 2026. The monthly rent payments are \$8,700 in the first year and increase 3% annually. Rent expense for the year ended December 31, 2016 totaled \$83,460 and includes an additional \$24,000 security deposit. As of December 31, 2016, \$34,800 is held by the landlord as a security deposit. Rent expense for the year ended December 31, 2015 totaled \$41,043.

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

<u>Year</u>	<u>Amount</u>
2017	\$ 105,705
2018	108,876
2019	112,142
2020	115,507
2021	118,972
2022 and thereafter	<u>592,127</u>
Total	<u>\$ 1,153,329</u>

**LAVELLE FUND FOR THE BLIND, INC.****Notes to Financial Statements (continued)  
December 31, 2016  
(Modified Cash Basis)****Note 7 – Retirement plans****SEP-IRA**

The Fund has a Simplified Employee Pension – Individual Retirement Accounts (SEP-IRA) retirement plan for all eligible employees. The Fund contributes to the SEP-IRA 8% of each eligible employee's salary plus a dollar-for-dollar matching of up to 4% of any amount the employee contributes to the 403(b) plan. The total expense for the years ended December 31, 2016 and December 31, 2015 totaled \$42,120 and \$39,164, 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. The Fund did not contribute to the 403(b) defined contribution plan. The total contributions made by employees for the years ended December 31, 2016 and December 31, 2015 amounted to \$40,000 and \$37,250, respectively.

**Note 8 – 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 was paid in full. The remaining principal of the \$150,000 loan was paid in full during January 2016.

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 requires 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. The loan 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, 2016, \$61,334 of the principal has been paid to the Fund.

**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.