

LAVELLE FUND FOR THE BLIND, INC.

**Financial Statements
for the year ended
December 31, 2017
(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, 2017 and December 31, 2016 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, 2017 and December 31, 2016 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.

Caroleen O'Meara McGuffey & Donnelly LLP

LAVELLE FUND FOR THE BLIND, INC.

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

Assets

	December 31	
	2017	2016
Cash	\$ 48,494	\$ 71,678
Program-related investment	139,044	188,666
Investments, at fair value	<u>123,045,942</u>	<u>112,855,541</u>
Total assets	<u>\$ 123,233,480</u>	<u>\$ 113,115,885</u>

Net Assets

Unrestricted net assets	<u>\$ 123,233,480</u>	<u>\$ 113,115,885</u>
--------------------------------	------------------------------	------------------------------

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.

Statement of Revenue and Expenses (Modified Cash Basis)

	Year Ended December 31	
	2017	2016
Revenue		
Interest	\$ 66,060	\$ 17,466
Dividends	1,832,676	1,831,233
Other	3,526	-
Returned grants	-	189,077
Total revenue	1,902,262	2,037,776
Less: Expenses directly related to investments		
Investment management and custodian fees	515,643	492,379
Federal excise taxes	345,000	78,936
Foreign taxes	7,993	25,342
Revenue available for grants and other expenses	1,033,626	1,441,119
Expenses		
Payroll and related expenses	679,071	521,275
Professional fees	48,376	48,968
Consulting fees	29,969	10,940
Office supplies	3,200	3,126
Office equipment	25,696	22,346
Office enhancements	17,387	55,906
Rent	105,444	83,460
Travel, conferences and meetings	61,654	8,209
Telephone	3,040	3,435
Utilities	4,219	4,314
Moving	-	16,050
Dues, subscriptions and publications	12,067	15,961
Insurance	10,245	9,215
Other	12,891	12,713
Total expenses	1,013,259	815,918
Excess of revenue over expenses before grants and scholarships	20,367	625,201
Grants	5,697,030	4,090,368
Scholarships	320,443	414,562
Total grants and scholarships	6,017,473	4,504,930
(Deficiency) of revenue to cover expenses before other additions	(5,997,106)	(3,879,729)
Other additions		
Realized gain on sale of investments	12,271,497	5,479,250
Change in unrealized value of investments	3,843,204	2,029,323
Total other additions	16,114,701	7,508,573
Increase in unrestricted net assets	10,117,595	3,628,844
Unrestricted net assets, beginning of year	113,115,885	109,487,041
Unrestricted net assets, end of year	\$ 123,233,480	\$ 113,115,885

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.

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

	Year Ended December 31	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 10,117,595	\$ 3,628,844
Adjustments to reconcile increase in unrestricted net assets to net cash (used in) operating activities		
Realized (gain) on sale of investments	(12,271,497)	(5,479,250)
Change in unrealized value of investments	(3,843,204)	(2,029,323)
Program-related investments	<u>49,622</u>	<u>199,128</u>
Net cash (used in) operating activities	<u>(5,947,484)</u>	<u>(3,680,601)</u>
Cash flows from investing activities		
Purchases of investments	(59,694,310)	(47,184,887)
Proceeds from sales of investments	<u>65,618,610</u>	<u>50,643,854</u>
Net cash provided by investing activities	<u>5,924,300</u>	<u>3,458,967</u>
Net (decrease) in cash	(23,184)	(221,634)
Cash, beginning of year	<u>71,678</u>	<u>293,312</u>
Cash, end of year	<u>\$ 48,494</u>	<u>\$ 71,678</u>
Supplemental disclosure of cash flow information		
Cash paid for federal excise taxes	<u>\$ 345,000</u>	<u>\$ 78,936</u>

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements
December 31, 2017
(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 original 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, corporate bonds and publicly traded limited partnerships are based on publicly quoted prices. The cost of these investments when sold is determined using the specific identification method.

Fair value measurements

The fair value hierarchy prioritizes 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, 2017 and December 31, 2016, all of the Fund’s investments are deemed to be Level 1 assets.

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)
December 31, 2017
(Modified Cash Basis)

Note 2 – Summary of significant accounting policies (continued)

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's 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, 2017. 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.

Subsequent events

The Fund has evaluated events and transactions for potential recognition or disclosure through April 18, 2018, which is the date the financial statements were available to be issued.

Note 3 – Grant commitments

Grants commitments at December 31, 2017 amounted to \$11,559,227. Included in the future grant commitments is the Brother Kearney Scholarship program, which has a current maximum commitment of \$5,906,433. 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>
2018	\$ 3,488,390	\$ 770,822	\$ 4,259,212
2019	1,855,266	875,822	2,731,088
2020	309,138	896,643	1,205,781
2021 and thereafter	-	3,363,146	3,363,146
Total	<u>\$ 5,652,794</u>	<u>\$ 5,906,433</u>	<u>\$ 11,559,227</u>

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)
December 31, 2017
(Modified Cash Basis)

Note 4 – Grants and scholarships expense

Total grants and scholarships paid in the years ended December 31, 2017 and December 31, 2016 for the Fund's top three program areas amounted to \$5,913,112 and \$4,270,680, respectively.

<u>Primary Program Focus</u>	<u>2017</u>	<u>2016</u>
Vision rehabilitation	\$ 2,556,856	\$ 1,158,487
Medical eye care	2,401,583	1,958,947
Education	634,230	738,684
Education: Brother Kearney Scholarship Program	320,443	414,562
Other	<u>104,361</u>	<u>234,250</u>
Total	<u>\$ 6,017,473</u>	<u>\$ 4,504,930</u>

Grants and scholarships paid in 2017 and 2016 were as follows:

<u>Geography served Grants and Scholarships</u>	<u>2017</u>	<u>2016</u>
Domestic	\$ 3,833,041	\$ 2,566,811
International	<u>2,184,432</u>	<u>1,938,119</u>
Total	<u>\$ 6,017,473</u>	<u>\$ 4,504,930</u>

Note 5 – Investments

As of December 31, 2017 and December 31, 2016, the investments consist of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term investments	\$ 14,866,367	\$ 14,866,367	\$ 24,878,238	\$ 24,878,238
Mutual funds				
Equity fund	-	-	23,700,829	31,736,485
Index fund	37,864,673	44,490,895	5,044,803	4,971,799
Exchange-traded funds	5,051,307	5,266,669	-	-
Equities				
Common stock	43,144,848	54,783,243	43,951,221	50,773,869
Real estate investment trust	221,753	653,100	222,309	495,150
Corporate bonds	<u>2,995,649</u>	<u>2,985,668</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 104,144,597</u>	<u>\$ 123,045,942</u>	<u>\$ 97,797,400</u>	<u>\$ 112,855,541</u>

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)

December 31, 2017
(Modified Cash Basis)

Note 6 – Lease agreement

Commencing July 1, 2016, the Fund entered into a lease for office space which expires July 31, 2026. The monthly rent payments were initially \$8,700 and are subject to a 3% increase annually. Rent expense totaled \$105,444 for the year ended December 31, 2017 and \$83,460 for the year ended December 31, 2016, which includes a \$24,000 security deposit.

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

<u>Year</u>	<u>Amount</u>
2018	\$ 108,876
2019	112,142
2020	115,507
2021	118,972
2022	122,541
2023 and thereafter	<u>469,586</u>
Total	<u>\$ 1,047,624</u>

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, 2017 and December 31, 2016 totaled \$53,142 and \$42,120, 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, 2017 and December 31, 2016 amounted to \$53,062 and \$40,000, respectively.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements (continued)
December 31, 2017
(Modified Cash Basis)****Note 8 – Program-related investment**

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, 2017, \$110,956 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 required to pay a Federal excise tax on net investment income (interest, dividends and realized capital gains less direct investment expenses and allocated administrative expenses) at a 2% tax rate. If qualifying distributions (grants and qualifying administrative expenses) exceed a certain threshold, the tax rate can be reduced to 1%. For 2017, the Fund qualified for the 1% rate. In 2016, the Fund’s rate was 2%.

The Fund’s Federal excise tax for 2017 will be \$134,924. The Fund’s 2017 excise tax expense of \$345,000 consisted of an \$88,296 payment toward the 2016 excise tax and \$256,704 in estimated payments for 2017. Because the Fund qualified for the 1% excise tax rate, there is an overpayment of \$121,780.