

LAVELLE FUND FOR THE BLIND, INC.

**Financial Statements
for the year ended
December 31, 2018
(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, 2018 and December 31, 2017 and the related statements of revenue and expenses (modified cash basis) and cash flows (modified cash basis) for the years then ended and the statement of functional expenses (modified cash basis) for the year ended December 31, 2018 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, 2018 and December 31, 2017 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.

Coudon O'Meara McBinty + Donnelly LLP

LAVELLE FUND FOR THE BLIND, INC.

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

Assets		December 31	
		2018	2017
Cash		\$ 97,886	\$ 48,494
Program-related investment		88,924	139,044
Investments, at fair value		<u>111,996,614</u>	<u>123,045,942</u>
Total assets		<u>\$ 112,183,424</u>	<u>\$ 123,233,480</u>
Net Assets			
Net assets		<u>\$ 112,183,424</u>	<u>\$ 123,233,480</u>

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.

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

	Year Ended December 31	
	<u>2018</u>	<u>2017</u>
Revenue		
Net investment return (loss)	\$ (4,164,437)	\$ 17,488,099
Other	<u>2,538</u>	<u>5,228</u>
Total revenue	<u>(4,161,899)</u>	<u>17,493,327</u>
Expenses		
Grants and programs	5,902,580	6,110,186
General and administrative	850,355	840,150
Indirect investment expenses and taxes	<u>135,222</u>	<u>425,396</u>
Total expenses	6,888,157	7,375,732
Increase (decrease) in net assets	<u>(11,050,056)</u>	<u>10,117,595</u>
Net assets, beginning of year	<u>123,233,480</u>	<u>113,115,885</u>
Net assets, end of year	<u>\$ 112,183,424</u>	<u>\$ 123,233,480</u>

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.

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

	Year Ended	
	December 31	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (11,050,056)	\$ 10,117,595
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) operating activities		
Realized (gain) on sale of investments	(7,217,717)	(12,271,497)
Change in unrealized value of investments	13,126,312	(3,843,204)
Program-related investments	<u>50,120</u>	<u>49,622</u>
Net cash (used in) operating activities	<u>(5,091,341)</u>	<u>(5,947,484)</u>
Cash flows from investing activities		
Purchases of investments	(37,143,392)	(59,694,310)
Proceeds from sales of investments	<u>42,284,125</u>	<u>65,618,610</u>
Net cash provided by investing activities	<u>5,140,733</u>	<u>5,924,300</u>
Net increase (decrease) in cash	49,392	(23,184)
Cash, beginning of year	<u>48,494</u>	<u>71,678</u>
Cash, end of year	<u>\$ 97,886</u>	<u>\$ 48,494</u>
Supplemental disclosure of cash flow information		
Cash paid for federal excise taxes	<u>\$ 50,000</u>	<u>\$ 345,000</u>

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.

Statement of Functional Expenses
(Modified Cash Basis)
For the Year Ended December 31, 2018
(With Summarized Information for the Year Ended December 31, 2017)

	<u>2018</u>			<u>2017</u>	
	<u>Supporting Activities</u>			<u>Total</u>	<u>Total</u>
	<u>Grants and Programs</u>	<u>General and Administrative</u>	<u>Indirect Investment Expenses And Taxes</u>		
Grants paid (net of rescissions)	\$ 5,806,649	\$ -	\$ -	\$ 5,806,649	\$ 6,017,473
Allocated expenses					
Salaries	62,005	430,310	47,350	539,665	534,132
Employee benefits	16,401	113,824	12,525	142,750	111,496
Payroll taxes	3,866	26,831	2,952	33,649	33,444
Rent	13,342	92,590	10,188	116,120	110,872
Business insurance	-	9,968	-	9,968	10,245
Computer and technology expenses	-	29,573	-	29,573	25,696
Dues and subscriptions	-	15,061	-	15,061	12,067
Travel, conferences and meetings	-	24,033	-	24,033	18,517
International travel (South Asia)	-	-	-	-	43,137
Office equipment, furniture and enhancements	-	14,400	-	14,400	17,387
Office supplies	-	3,173	-	3,173	3,200
Postage and delivery	-	1,158	-	1,158	1,225
Professional fees:					
Accounting, audit and tax	-	28,634	9,545	38,179	31,826
Legal	-	13,716	2,420	16,136	16,550
Website services (redesign of universal and intuitive access)	-	30,489	-	30,489	5,228
Other	-	4,035	-	4,035	24,744
Telephone	317	2,201	242	2,760	3,040
Other	-	10,359	-	10,359	10,453
Total allocated expenses	95,931	850,355	85,222	1,031,508	1,013,259
Excise tax	-	-	50,000	50,000	345,000
Total	\$ 5,902,580	\$ 850,355	\$ 135,222	\$ 6,888,157	\$ 7,375,732

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements
December 31, 2018
(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.

Net assets

The Fund’s net assets are without donor restrictions and its resources are available to support operations.

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.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements (continued)
December 31, 2018
(Modified Cash Basis)****Note 2 – Summary of significant accounting policies (continued)**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, 2018 and December 31, 2017, 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'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, 2018. 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.

Recent accounting pronouncement

During August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958: Presentation of Financial Statements for Not-For-Profit Entities, which changes the current guidance for investment return, expenses and liquidity, among other things. ASU 2016-14 requires not-for-profits to report investment return net of external and direct investment expenses. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and support functions also need to be disclosed. ASU 2016-14 requires not-for profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the date of the statement of assets and net assets. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. The Fund has adopted the applicable provisions of ASU 2016-14 and has retrospectively applied this standard to the financial statements (modified cash basis) as of and for the year ending December 31, 2017.

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)
December 31, 2018
(Modified Cash Basis)

Note 2 – Summary of significant accounting policies (continued)

Subsequent events

The Fund has evaluated events and transactions for potential recognition or disclosure through April 17, 2019, which is the date the financial statements were available to be issued.

Note 3 – Functional expenses

The Fund's 2018 financial statements reflect the adoption of the applicable provisions of ASU 2016-14. In connection therewith, the Fund has included a statement of functional expenses (modified cash basis) for 2018 with summarized comparative totals for 2017.

Certain categories of expenses that are attributable to more than one program or supporting function are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits, which are allocated based on estimates of time and effort; rent and utilities are based on the compensation allocation; professional services are based on type of services rendered. All other expenses are considered routine operating expenses.

Note 4 – Grant commitments

Grants commitments at December 31, 2018 amounted to \$11,098,823. Included in the future grant commitments is the Brother Kearney Scholarship program, which has a current maximum commitment of \$5,587,607. 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>
2019	\$ 3,423,862	\$ 690,005	\$ 4,113,867
2020	1,471,653	622,505	2,094,158
2021	615,701	690,011	1,305,712
2022 and 2023	-	3,585,086	3,585,086
Total	<u>\$ 5,511,216</u>	<u>\$ 5,587,607</u>	<u>\$ 11,098,823</u>

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)
December 31, 2018
(Modified Cash Basis)

Note 5 – Grants and scholarships expense

Total grants and scholarships paid in the years ended December 31, 2018 and December 31, 2017 for the Fund's top three program areas amounted to \$5,503,820 and \$5,913,112, respectively.

<u>Primary Program Focus</u>	<u>2018</u>	<u>2017</u>
Medical eye care	\$ 1,651,763	\$ 2,401,583
Vision rehabilitation	2,207,896	2,556,856
Education (other than scholarships)	1,325,336	634,230
Education: Brother Kearney Scholarship program	318,825	320,443
Other	<u>302,829</u>	<u>104,361</u>
Total	<u>\$ 5,806,649</u>	<u>\$ 6,017,473</u>

Grants and scholarships paid in 2018 and 2017 were as follows:

<u>Geography served:</u> <u>Grants and Scholarships</u>	<u>2018</u>	<u>2017</u>
Domestic	\$ 4,117,704	\$ 3,833,041
International	<u>1,688,945</u>	<u>2,184,432</u>
Total	<u>\$ 5,806,649</u>	<u>\$ 6,017,473</u>

Note 6 – Investments

As of December 31, 2018 and December 31, 2017, the investments consist of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term investments	\$ 25,717,583	\$ 25,717,583	\$ 14,866,367	\$ 14,866,367
Mutual funds – index funds	38,505,551	40,754,527	37,864,673	44,490,895
Equities				
Common stock	26,486,850	32,277,633	43,366,601	55,436,343
Fixed income	3,099,905	2,993,850	2,995,649	2,985,668
International exchange - traded funds	<u>12,411,692</u>	<u>10,253,021</u>	<u>5,051,307</u>	<u>5,266,669</u>
Total	<u>\$106,221,581</u>	<u>\$111,996,614</u>	<u>\$104,144,597</u>	<u>\$123,045,942</u>

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)
December 31, 2018
(Modified Cash Basis)

Note 6 – Investments (continued)

Investment return (loss) for the years ended December 31, 2018 and December 31, 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 2,230,970	\$ 1,897,036
Realized gains	7,217,717	12,271,497
Unrealized gain (loss)	(13,125,323)	3,843,203
Investment management fees	(482,246)	(515,643)
Foreign taxes	<u>(5,555)</u>	<u>(7,994)</u>
Net investment return (loss)	<u>\$ (4,164,437)</u>	<u>\$ 17,488,099</u>

Note 7 – 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 \$108,607 for the year ended December 31, 2018 and \$105,444 for the year ended December 31, 2017, 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>
2019	\$ 112,142
2020	115,507
2021	118,972
2022	122,541
2023	126,217
2024 and thereafter	<u>343,368</u>
Total	<u>\$ 938,747</u>

Note 8 – 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, 2018 and December 31, 2017 totaled \$79,245 and \$53,142, respectively. The SEP contributions made in 2018 include retroactive contributions for part-time employees, totaling \$24,508.

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)
December 31, 2018
(Modified Cash Basis)

Note 8 – Retirement plans (continued)

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, 2018 and December 31, 2017 amounted to \$54,400 and \$53,062, respectively.

Note 9 – 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, 2018, \$161,076 of the principal had been paid to the Fund.

Note 10 – Liquidity and availability of financial assets

The Fund’s financial assets available within one year of December 31, 2018 for grant payments and general expenditures are as follows:

Cash and cash equivalents	\$ 25,815,469
Short-term investments	2,993,850
Other investments appropriate for current use	<u>83,285,181</u>
Financial assets available for grant payments and general expenditures	<u>\$ 112,094,500</u>

As part of the Fund’s liquidity management, the Fund: (1) has structured its financial assets to be invested in highly liquid investments – that are without lockup provisions – to meet its general expenditures and other obligations as they come due, (2) maintains cash and short-term investments on hand to meet a minimum of one year and up to three years of normal operating expenses, and (3) invests cash in excess of daily requirements in various short-term investments, including money market funds, mutual funds and bonds.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements (continued)
December 31, 2018
(Modified Cash Basis)****Note 11 – 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 2018 and 2017, the Fund qualified for the 1% rate.

It is estimated the Fund's federal excise tax for 2018 will be \$88,138. The Fund's 2018 estimated excise tax payments and credits totaled \$171,780, which includes \$50,000 paid in 2018 plus a 2017 refund carry-forward of \$121,780. The Fund expects that it will be able to apply \$83,642 of those payments to its 2019 excise tax liability.