

LAVELLE FUND FOR THE BLIND, INC.

**Financial Statements
for the year ended
December 31, 2019
(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, 2019 and December 31, 2018 and the related statements of revenue and expenses (modified cash basis), cash flows (modified cash basis) and functional expenses (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, 2019 and December 31, 2018 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.

Coulson O'Meara McQuinty & Donnelly LLP

LAVELLE FUND FOR THE BLIND, INC.

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

Assets

	December 31	
	2019	2018
Cash	\$ 108,064	\$ 97,886
Program-related investment	38,301	88,924
Investments, at fair value	<u>132,453,152</u>	<u>111,996,614</u>
Total assets	<u>\$ 132,599,517</u>	<u>\$ 112,183,424</u>

Net Assets

Net assets	<u>\$ 132,599,517</u>	<u>\$ 112,183,424</u>
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LAVELLE FUND FOR THE BLIND, INC.

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

		Year Ended December 31	
		2019	2018
Revenue			
Net investment return (loss)		\$ 26,756,543	\$ (4,164,437)
Other		<u>1,900</u>	<u>2,538</u>
Total revenue		<u>26,758,443</u>	<u>(4,161,899)</u>
Expenses			
Grants and programs		5,914,514	6,477,634
General and administrative		266,761	258,433
Indirect investment expenses and taxes		<u>161,075</u>	<u>152,090</u>
Total expenses		<u>6,342,350</u>	<u>6,888,157</u>
Increase (decrease) in net assets		20,416,093	(11,050,056)
Net assets, beginning of year		<u>112,183,424</u>	<u>123,233,480</u>
Net assets, end of year		<u>\$ 132,599,517</u>	<u>\$ 112,183,424</u>

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.

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

	Year Ended December 31	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 20,416,093	\$ (11,050,056)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) operating activities		
Realized (gains) on sales of investments	(5,423,327)	(7,217,717)
Change in unrealized value of investments	(19,191,147)	13,126,312
Program-related investments	<u>50,623</u>	<u>50,120</u>
Net cash (used in) operating activities	<u>(4,147,758)</u>	<u>(5,091,341)</u>
Cash flows from investing activities		
Purchases of investments	(16,307,220)	(37,143,392)
Proceeds from sales of investments	<u>20,465,156</u>	<u>42,284,125</u>
Net cash provided by investing activities	<u>4,157,936</u>	<u>5,140,733</u>
Net increase in cash	10,178	49,392
Cash, beginning of year	<u>97,886</u>	<u>48,494</u>
Cash, end of year	<u>\$ 108,064</u>	<u>\$ 97,886</u>
Supplemental disclosure of cash flow information		
Cash paid for federal excise taxes	<u>\$ 55,000</u>	<u>\$ 50,000</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, 2019**

	<u>Supporting Activities</u>			
	<u>Grants and Programs</u>	<u>General and Administrative</u>	<u>Indirect Investment Expenses And Taxes</u>	<u>Total</u>
Grants paid (net of rescissions)	\$ 5,227,548	\$ -	\$ -	\$ 5,227,548
Other expenses				
Salaries	390,459	152,085	58,143	600,687
Employee benefits	69,912	44,200	14,397	128,509
Payroll taxes	22,261	10,481	3,970	36,712
Rent	103,105	12,130	6,065	121,300
Business insurance	-	10,922	-	10,922
Computer and technology expenses	23,832	2,804	1,402	28,038
Dues and subscriptions	13,878	1,542	-	15,420
Travel, conferences and meetings	19,362	1,076	1,076	21,514
International travel (South Asia)	15,237	-	-	15,237
Professional development	-	627	-	627
Office equipment, furniture and enhancements	8,478	1,496	-	9,974
Office supplies	2,696	317	159	3,172
Postage and delivery	693	122	-	815
Professional fees:				
Accounting, audit and tax	-	11,183	20,768	31,951
Legal	-	1,891	-	1,891
Website services (redesign of universal and intuitive access)	1,425	75	-	1,500
Other	8,365	5,964	-	14,329
Telephone	1,525	286	95	1,906
Taxes and filing fees	-	6,745	-	6,745
Other	5,738	2,815	-	8,553
Total other expenses	686,966	266,761	106,075	1,059,802
Excise tax	-	-	55,000	55,000
Total	\$ 5,914,514	\$ 266,761	\$ 161,075	\$ 6,342,350

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

	<u>Supporting Activities</u>			
	<u>Grants and Programs</u>	<u>General and Administrative</u>	<u>Indirect Investment Expenses And Taxes</u>	<u>Total</u>
Grants paid (net of rescissions)	\$ 5,806,649	\$ -	\$ -	\$ 5,806,649
Other expenses				
Salaries	350,064	137,616	51,985	539,665
Employee benefits	88,636	40,890	13,224	142,750
Payroll taxes	20,547	9,532	3,570	33,649
Rent	98,702	11,612	5,806	116,120
Business insurance	-	9,968	-	9,968
Computer and technology expenses	25,137	2,957	1,479	29,573
Dues and subscriptions	13,555	1,506	-	15,061
Travel, conferences and meetings	16,447	914	914	18,275
Professional development (Board and staff)	-	5,758	-	5,758
Office equipment, furniture and enhancements	12,240	2,160	-	14,400
Office supplies	2,697	317	159	3,173
Postage and delivery	984	174	-	1,158
Professional fees:				
Accounting, audit and tax	-	13,363	24,816	38,179
Legal	-	16,136	-	16,136
Website services (redesign of universal and intuitive access)	28,965	1,524	-	30,489
Other	3,632	403	-	4,035
Telephone	2,209	414	137	2,760
Taxes and filing fees	-	1,500	-	1,500
Other	7,170	1,689	-	8,859
Total other expenses	670,985	258,433	102,090	1,031,508
Excise tax	-	-	50,000	50,000
Total	\$ 6,477,634	\$ 258,433	\$ 152,090	\$ 6,888,157

See notes to financial statements.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements****December 31, 2019****(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 was 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, fixed income and exchange-traded funds 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, 2019****(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, 2019 and December 31, 2018, 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, 2019. 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 requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Reclassification

Certain items in the 2018 financial statements have been reclassified, specifically to grants and programs and general and administrative expenses, for comparative purposes only.

Subsequent events

The Fund has evaluated events and transactions for potential recognition or disclosure through April 16, 2020, which is the date the financial statements were available to be issued.

The Fund's operations and financial performance may be affected by the recent coronavirus outbreak which has spread globally and is affecting the economic conditions throughout the world. As the outbreak continues and conditions worsen, the Fund may experience a disruption in operations as well as a decline in the fair value of investments. (As of March 31, 2020, the Fund's cash and investments at fair value totaled \$111,892,929). The outbreak is likely to adversely affect the Fund's activities, financial conditions, and change in net assets on an interim basis. An estimate of the total loss due to the outbreak cannot be determined at this time.

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)
December 31, 2019
(Modified Cash Basis)

Note 3 – Functional expenses

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, 2019 amounted to \$13,354,143. Included in the future grant commitments is the Brother Kearney Scholarship program, which has a current maximum commitment of \$8,251,725. 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 2027.

Payments are scheduled for future years as follows:

<u>Year</u>	<u>Grants</u>	<u>Scholarships</u>	<u>Total</u>
2020	\$ 2,781,491	\$ 756,461	\$ 3,537,952
2021	1,678,932	613,961	2,292,893
2022	641,995	867,922	1,509,917
2023 and thereafter	-	6,013,381	6,013,381
Total	<u>\$ 5,102,418</u>	<u>\$ 8,251,725</u>	<u>\$ 13,354,143</u>

Note 5 – Grants and scholarships expense

Total grants and scholarships paid in the years ended December 31, 2019 and December 31, 2018 for the Fund's top three program areas amounted to \$4,996,222 and \$5,503,820, respectively.

<u>Primary Program Focus</u>	<u>2019</u>	<u>2018</u>
Medical eye care	\$ 1,729,559	\$ 1,651,763
Vision rehabilitation	1,948,399	2,207,896
Education (other than scholarships)	982,382	1,325,336
Education: Brother Kearney Scholarship program	335,882	318,825
Other	231,326	302,829
Total	<u>\$ 5,227,548</u>	<u>\$ 5,806,649</u>

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)

December 31, 2019

(Modified Cash Basis)

Note 5 – Grants and scholarships expense (continued)

Grants and scholarships paid in 2019 and 2018 were as follows:

Geography served:			
Grants and Scholarships		<u>2019</u>	<u>2018</u>
Domestic	\$	3,532,114	\$ 4,117,704
International		<u>1,695,434</u>	<u>1,688,945</u>
Total	\$	<u>5,227,548</u>	<u>\$ 5,806,649</u>

Note 6 – Investments, at fair value

As of December 31, 2019 and December 31, 2018, the investments consist of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term investments	\$ 22,300,461	\$ 22,299,251	\$ 25,717,583	\$ 25,717,583
Mutual funds – index funds	38,503,486	52,037,531	38,505,551	40,754,527
Equities				
U.S.	24,466,905	35,656,634	26,486,850	32,277,633
International	17,681,603	17,900,550	12,411,692	10,253,021
Fixed income	<u>4,534,517</u>	<u>4,559,186</u>	<u>3,099,905</u>	<u>2,993,850</u>
Total	<u>\$ 107,486,972</u>	<u>\$ 132,453,152</u>	<u>\$ 106,221,581</u>	<u>\$ 111,996,614</u>

Investment return (loss) for the years ended December 31, 2019 and December 31, 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 2,461,166	\$ 2,230,970
Realized gains	5,423,327	7,217,717
Change in unrealized value of investments	19,191,147	(13,125,323)
Investment management fees	(310,467)	(482,246)
Foreign taxes	<u>(8,630)</u>	<u>(5,555)</u>
Net investment return (loss)	<u>\$ 26,756,543</u>	<u>\$ (4,164,437)</u>

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)

December 31, 2019

(Modified Cash Basis)

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 \$111,866 for the year ended December 31, 2019 and \$108,607 for the year ended December 31, 2018.

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

<u>Year</u>	<u>Amount</u>
2020	\$ 115,507
2021	118,972
2022	122,541
2023	126,217
2024	130,004
2025 and 2026	<u>213,365</u>
Total	<u>\$ 826,606</u>

Note 8 – Retirement plans

SEP-IRA

The Fund had a Simplified Employee Pension – Individual Retirement Accounts (SEP-IRA) retirement plan for all eligible employees. The Fund contributed 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 contributed to the 403(b) plan. During 2019, the Fund elected to terminate the SEP-IRA and replaced it with a 401(k) plan. The total expense for the year ended December 31, 2018 totaled \$79,245. There was no expense fee for the SEP-IRA in 2019.

403(b) Annuity plan

The Fund also had a 403(b) tax-deferred annuity plan for all employees. Employees were able to contribute to the plan an amount not to exceed the annual limit established under the Internal Revenue Code. The Fund did not contribute to the 403(b) defined contribution plan. During 2019, the Fund elected to terminate the plan 403(b) annuity plan and replaced it with a 401(k) plan.

Commencing January 1, 2019, the Fund established a 401(k) plan for all eligible employees to replace the aforementioned SEP-IRA and 403(b) annuity plans. Employees may contribute to the plan an amount equal to 100% of eligible employees' salary within current Internal Revenue Service limits. In 2019, the Fund contributed \$60,358, which consisted of a match contribution up to, but did not exceed, 4% of compensation and an additional contribution equal to 8% of employee salary for 2019.

LAVELLE FUND FOR THE BLIND, INC.

Notes to Financial Statements (continued)

December 31, 2019

(Modified Cash Basis)

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, 2019, \$211,699 of the principal had been paid to the Fund.

During March 2020, the Fund approved a \$240,000 program-related-investment (“PRI”) loan to Lavelle School for the Blind for general corporate purposes or operating expenses. Amounts borrowed under the PRI loan shall be evidenced by a promissory note and shall be unsecured. The PRI loan requires simple interest at a fixed rate of 1% calculated on the unpaid principal balance of the loan. Both the principal of the loan and any unpaid accrued interest are payable in full on March 31, 2021.

Note 10 – Liquidity and availability of financial assets

The Fund’s financial assets available within one year of December 31, 2019 and December 31, 2018 for grant payments and general expenditures are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 108,064	\$ 97,886
Program – related investment	38,301	50,623
Other investments appropriate for current use	<u>132,453,152</u>	<u>111,996,614</u>
Total	<u>\$ 132,599,517</u>	<u>\$ 112,145,123</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.

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.

LAVELLE FUND FOR THE BLIND, INC.**Notes to Financial Statements (continued)
December 31, 2019
(Modified Cash Basis)****Note 11 – Tax status (continued)**

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 2019, the Fund's tax rate was 2% and for 2018, the Fund qualified for the 1% rate.

It is estimated the Fund's federal excise tax for 2019 will be \$149,224. The Fund's 2019 estimated excise tax payments and credits totaled \$138,642, which includes \$55,000 paid in 2019 plus a 2018 refund carry-forward of \$83,642.