



THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 and 2016
(with supplementary information)

THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Seeing Eye, Inc.
(A New Jersey Not-for-Profit Organization)

Report on the Financial Statements

We have audited the accompanying financial statements of The Seeing Eye, Inc. (the "Organization"), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, and cash flows for each of 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 accounting principles generally accepted in the United States of America; this includes 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 organization'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 organization'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 referred to above present fairly, in all material respects, the financial position of The Seeing Eye, Inc., as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for each of the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 28 and 29 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
December 14, 2017

EISNERAMPER
LLP

THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

Statements of Financial Position

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,595,000	\$ 1,835,000
Prepays and other assets	162,000	268,000
Unconditional promises to give, net	50,000	455,000
Investments	264,466,000	244,566,000
Beneficial interests in perpetual trusts held by others	22,965,000	22,540,000
Beneficial interests in other charitable trusts	4,657,000	910,000
Land, buildings and equipment, net	<u>44,376,000</u>	<u>45,738,000</u>
	<u>\$ 338,271,000</u>	<u>\$ 316,312,000</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,961,000	\$ 3,218,000
Accrued pension and postretirement benefits	21,415,000	25,243,000
Interest payable	378,000	378,000
Capital lease obligation	2,415,000	2,437,000
Bonds payable	<u>36,497,000</u>	<u>36,801,000</u>
	<u>63,666,000</u>	<u>68,077,000</u>
NET ASSETS		
Unrestricted	240,621,000	217,276,000
Temporarily restricted	5,039,000	2,452,000
Permanently restricted	<u>28,945,000</u>	<u>28,507,000</u>
	<u>274,605,000</u>	<u>248,235,000</u>
Total net assets	<u>\$ 338,271,000</u>	<u>\$ 316,312,000</u>

THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

Statement of Activities
Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenue, gains and other support:				
Contributions	\$ 6,872,000	\$ 287,000	\$ 13,000	\$ 7,172,000
Legacies	6,534,000	3,673,000	749,000	10,956,000
Trust income	1,202,000	-	-	1,202,000
Investment assets appropriated for operations	11,510,000	306,000	-	11,816,000
Other	158,000	-	-	158,000
Net assets released from restrictions	<u>1,470,000</u>	<u>(1,470,000)</u>	<u>-</u>	<u>-</u>
	<u>27,746,000</u>	<u>2,796,000</u>	<u>762,000</u>	<u>31,304,000</u>
Operating expenses:				
Program services	22,068,000	-	-	22,068,000
Management and general	1,606,000	-	-	1,606,000
Fundraising	<u>3,429,000</u>	<u>-</u>	<u>-</u>	<u>3,429,000</u>
	<u>27,103,000</u>	<u>-</u>	<u>-</u>	<u>27,103,000</u>
Increase in net assets from operating activities	<u>643,000</u>	<u>2,796,000</u>	<u>762,000</u>	<u>4,201,000</u>
Other changes:				
Investment return, net	28,737,000	23,000	-	28,760,000
Investment assets appropriated for operations	(11,510,000)	(306,000)	-	(11,816,000)
Unrealized losses on beneficial interests in perpetual trusts held by others	-	-	(324,000)	(324,000)
Pension and postretirement – related changes other than net periodic pension and post retirement cost	5,512,000	-	-	5,512,000
Change in value of split-interest agreements	<u>(37,000)</u>	<u>74,000</u>	<u>-</u>	<u>37,000</u>
	<u>22,702,000</u>	<u>(209,000)</u>	<u>(324,000)</u>	<u>22,169,000</u>
Change in net assets	23,345,000	2,587,000	438,000	26,370,000
Net assets - beginning of year	<u>217,276,000</u>	<u>2,452,000</u>	<u>28,507,000</u>	<u>248,235,000</u>
Net assets - end of year	<u>\$ 240,621,000</u>	<u>\$ 5,039,000</u>	<u>\$ 28,945,000</u>	<u>\$ 274,605,000</u>

See accompanying notes to financial statements

THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

Statement of Activities
Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenue, gains and other support:				
Contributions	\$ 6,315,000	\$ 337,000	\$ 6,000	\$ 6,658,000
Legacies	9,199,000	-	38,000	9,237,000
Trust income	1,211,000	-	-	1,211,000
Investment assets appropriated for operations	11,254,000	218,000	-	11,472,000
Other	166,000	-	-	166,000
Net assets released from restrictions	883,000	(883,000)	-	-
	<u>29,028,000</u>	<u>(328,000)</u>	<u>44,000</u>	<u>28,744,000</u>
Operating expenses:				
Program services	22,879,000	-	-	22,879,000
Management and general	1,488,000	-	-	1,488,000
Fundraising	3,048,000	-	-	3,048,000
	<u>27,415,000</u>	<u>-</u>	<u>-</u>	<u>27,415,000</u>
Increase (decrease) in net assets from operating activities	<u>1,613,000</u>	<u>(328,000)</u>	<u>44,000</u>	<u>1,329,000</u>
Other changes:				
Investment return, net	20,944,000	249,000	2,000	21,195,000
Investment assets appropriated for operations	(11,254,000)	(218,000)	-	(11,472,000)
Unrealized gains on beneficial interests in perpetual trusts held by others	-	-	393,000	393,000
Pension and postretirement – related changes other than net periodic pension and post retirement cost	(3,436,000)	-	-	(3,436,000)
Change in value of split-interest agreements	(133,000)	(19,000)	-	(152,000)
Gain on disposal of fixed assets	5,000	-	-	5,000
	<u>6,126,000</u>	<u>12,000</u>	<u>395,000</u>	<u>6,533,000</u>
Change in net assets	7,739,000	(316,000)	439,000	7,862,000
Net assets - beginning of year	<u>209,537,000</u>	<u>2,768,000</u>	<u>28,068,000</u>	<u>240,373,000</u>
Net assets - end of year	<u>\$ 217,276,000</u>	<u>\$ 2,452,000</u>	<u>\$ 28,507,000</u>	<u>\$ 248,235,000</u>

See accompanying notes to financial statements

THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

Statements of Cash Flows

	Year Ended September 30,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	<u>\$ 26,370,000</u>	\$ 7,862,000
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,369,000	2,451,000
Amortization of bond premium and debt issuance costs, net	(304,000)	(295,000)
Gain on sale of fixed assets	-	(5,000)
(Increase) decrease in beneficial interests in other charitable trusts	(3,747,000)	19,000
Net realized and unrealized gains on investments	(25,760,000)	(18,326,000)
Increase in beneficial interests in perpetual trusts held by others	(425,000)	(431,000)
Temporarily restricted contributions and legacies	(3,960,000)	(337,000)
Permanently restricted contributions and legacies	(762,000)	(44,000)
Donated securities	163,000	(168,000)
Proceeds from sales of donated securities	(163,000)	168,000
Decrease in unconditional promises to give	405,000	396,000
Decrease in prepaids and other assets	106,000	130,000
(Decrease) increase in accounts payable and accrued expenses	(257,000)	47,000
(Decrease) increase in accrued pension and postretirement benefits	(3,828,000)	6,083,000
	<u>(36,163,000)</u>	<u>(10,312,000)</u>
Net cash used in operating activities	<u>(9,793,000)</u>	<u>(2,450,000)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(1,007,000)	(594,000)
Proceeds from sale of investments	95,416,000	109,060,000
Purchase of investments	(89,556,000)	(106,363,000)
Proceeds from sale of fixed assets	-	5,000
Net cash provided by investing activities	<u>4,853,000</u>	<u>2,108,000</u>
Cash flows from financing activities:		
Payments on capital lease obligation	(22,000)	(21,000)
Temporarily restricted contributions and legacies received	3,960,000	337,000
Permanently restricted contributions and legacies received	762,000	44,000
Net cash provided by financing activities	<u>4,700,000</u>	<u>360,000</u>
Net change in cash and cash equivalents	(240,000)	18,000
Cash and cash equivalents - beginning of year	<u>1,835,000</u>	<u>1,817,000</u>
Cash and cash equivalents - end of year	<u>\$ 1,595,000</u>	<u>\$ 1,835,000</u>
Supplemental disclosure of cash paid:		
Cash paid for:		
Interest	\$ 1,813,000	\$ 1,814,000

See accompanying notes to financial statements

THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

Notes to Financial Statements
September 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The Seeing Eye, Inc. (the "Organization") is a New Jersey not-for-profit educational organization, whose mission is to enhance the independence, dignity and self-confidence of people who are blind or visually impaired through the use of Seeing Eye® dogs. In pursuit of this mission, the Organization breeds and raises puppies to become Seeing Eye dogs (or obtains them occasionally by purchase or exchange); teaches instructors the science and technique of training Seeing Eye dogs as guides for blind and visually impaired people, instructs blind and visually impaired people in the proper use and handling of the dogs; conducts and supports research on canine health and development; and informs the public about the role of guide dogs and the capabilities of blind and visually impaired people to live independently.

[2] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

[3] Basis of presentation:

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Permanently restricted net assets - represent net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.
- Temporarily restricted net assets - represent net assets subject to donor-imposed stipulations that will be met by actions of the Organization, by the passage of time and earnings derived from donor-restricted endowments not yet appropriated for expenditure by the Board of Trustees.
- Unrestricted net assets - represent net assets not subject to donor-imposed stipulations.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

[4] Operating indicator:

The operating activities of the Organization include all income and expenses related to carrying out its mission. Items not included in the Organization's operating measure are predominantly the investment return related to endowment and board-designated funds less the investment return appropriated for operations, changes in value of split-interest agreements, gains/losses on beneficial interest in perpetual trusts held by others, and pension and postretirement-related changes other than net periodic pension and postretirement cost.

THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

Notes to Financial Statements
September 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Cash equivalents:

Cash equivalents are short-term, highly liquid investments purchased with maturities of three months or less when acquired.

[6] Investments:

Investments in equity and debt securities with readily determinable market prices are stated at their fair values. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Dividends are recorded on the ex-dividend date. Investments received by gift are initially recorded at fair value at the date of receipt. Fair value for stocks, mutual funds and exchange traded funds ("ETF's") are based on quoted market prices, and U.S. government securities and collective investment trusts are based on quoted prices for similar instruments in active and inactive markets. As a practical expedient, the Organization uses its ownership interest in the net asset value ("NAV") to determine the fair value of investments in limited partnerships as provided by the management of the partnerships. The preceding methods described may produce a fair value estimate that may not be indicative of net realizable value or reflective of future values. Furthermore, although management believes its valuation methods are appropriate and consistent with the practices of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The fair value estimate of these assets do not necessarily represent amounts that might be realized upon their ultimate disposition and the differences may be material.

Gains and losses on sales of investments are determined using the average cost method.

Users of these financial statements should be aware that the financial markets' volatility may significantly impact the subsequent valuation of the Organization's investments. Accordingly, the valuation of investments may not necessarily be indicative of amounts that could be realized in a current market exchange.

[7] Land, buildings and equipment:

Land, buildings and equipment is stated at cost less accumulated depreciation. Donated assets are recorded at their approximate fair value at the date of the gift. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to forty years. It is the Organization's policy to capitalize property and equipment over \$2,000. Lesser amounts are expensed.

[8] Impairment of long-lived assets:

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were evaluated for impairment as of September 30, 2017 and 2016, and in the opinion of management, there was no impairment. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

Notes to Financial Statements
September 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Revenue recognition:

The Organization receives its primary operating and other support from legacies, trusts, contributions and investment assets appropriated for operations, and along with unconditional promises to give and other income, are recognized as revenue in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of donations. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity.

[10] Income taxes:

The Internal Revenue Service (the "IRS") has recognized the Organization as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Management has analyzed the tax positions taken by the Organization and has concluded that as of September 30, 2017 and 2016, there are no uncertain tax positions taken or expected to be taken that would require the recognition of a liability or disclosure in the financial statements. The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any. There were no income-tax related interest or penalties recorded for the years ended September 30, 2017 and 2016.

[11] New accounting pronouncements:

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize the following for all leases (with terms more than 12 months) at the commencement date of the lease: i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified lease term. For nonpublic business entities, the new ASU 2016-02 will be effective for fiscal years beginning after December 15, 2019, (which will be the year beginning October 1, 2020 for the Organization) with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU No. 2016-02 on its financial statements and related disclosures.

In August 2016, FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 amends the presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU No. 2016-14 includes qualitative and quantitative requirements in the following areas: a) net asset classes, b) investment return, c) expenses, d) liquidity and availability of resources, and e) presentation of operating cash flows. The new standard will be effective for annual reporting periods issued for fiscal years beginning after December 15, 2017, (which will be the year beginning October 1, 2018 for the Organization) with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU No. 2016-14 on its financial statements and related disclosures.

[12] Subsequent events:

The Organization evaluated subsequent events through December 14, 2017, the date the financial statements were available to be issued.

THE SEEING EYE, INC.
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Notes to Financial Statements
September 30, 2017 and 2016

NOTE B - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are as follows as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 45,000	\$ 439,000
Receivable in one to five years	<u>20,000</u>	<u>40,000</u>
	65,000	479,000
Less: discounts to net present value	-	(1,000)
Less: allowance for doubtful accounts	<u>(15,000)</u>	<u>(23,000)</u>
Unconditional promises to give, net	<u>\$ 50,000</u>	<u>\$ 455,000</u>

Unconditional promises to give, which are receivable in more than one year, are discounted at a risk-free rate of return appropriate for the expected term of the promises to give, which range from 0.8% to 1.7%. The discount to net present value as of September 30, 2017 was immaterial to the financial statements.

NOTE C - INVESTMENTS

A summary of investments held as of September 30, 2017 and 2016 is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Stocks	\$ 54,007,000	\$ 65,325,000	\$ 52,093,000	\$ 60,332,000
Equity ETF's and mutual funds	30,230,000	41,247,000	26,633,000	33,919,000
Collective investment trusts	38,541,000	47,396,000	39,547,000	41,971,000
Bond mutual funds	16,071,000	16,935,000	13,671,000	14,885,000
U.S. government securities	1,103,000	1,105,000	858,000	862,000
Short-term investments	6,958,000	6,958,000	7,218,000	7,218,000
Commodity ETF's	10,101,000	8,468,000	10,101,000	8,750,000
REIT mutual funds	287,000	324,000	287,000	339,000
Limited partnerships	<u>51,420,000</u>	<u>76,708,000</u>	<u>52,917,000</u>	<u>76,290,000</u>
	<u>\$ 208,718,000</u>	<u>\$ 264,466,000</u>	<u>\$ 203,325,000</u>	<u>\$ 244,566,000</u>

THE SEEING EYE, INC.
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Notes to Financial Statements
September 30, 2017 and 2016

NOTE C - INVESTMENTS (CONTINUED)

Investment return, net, for the years ended September 30, 2017 and 2016, is summarized below:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 3,653,000	\$ 3,458,000
Net realized gains	11,266,000	17,157,000
Net unrealized gains	<u>14,494,000</u>	<u>1,169,000</u>
	29,413,000	21,784,000
Investment advisory fees and expenses	<u>(653,000)</u>	<u>(589,000)</u>
	<u>\$ 28,760,000</u>	<u>\$ 21,195,000</u>

Included in investments are assets held under gift annuity agreements, which total \$3,789,000 and \$3,611,000 at September 30, 2017 and 2016, respectively, and which are in excess of legally mandated reserves.

Investments in multi-strategy hedge funds were approximately 18% and 19%, respectively, of the fair value of total assets at September 30, 2017 and 2016.

NOTE D - FAIR VALUE MEASUREMENTS

Fair Value Measurements and Disclosure establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. *Fair Value Measurements and Disclosure* defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants.

In determining fair value, the Organization uses various approaches, including market, income and/or cost approaches. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under *Fair Value Measurements and Disclosure* and the Organization's related types are described below:

Level 1 - Values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

The financial instruments within the fair value hierarchy are based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

THE SEEING EYE, INC.
(A New Jersey Not-for-Profit Organization)

Notes to Financial Statements
September 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables summarize the valuation of the Organization's assets within the aforementioned valuation hierarchy as of September 30, 2017 and 2016:

	Assets at Fair Value as of September 30, 2017				
	Level 1	Level 2	Level 3	NAV	Total
Investments:					
Stocks	\$ 65,325,000	\$ -	\$ -	\$ -	\$ 65,325,000
Equity ETF's and mutual funds	41,247,000	-	-	-	41,247,000
Collective investment trusts	-	47,396,000	-	-	47,396,000
Bond mutual funds	16,935,000	-	-	-	16,935,000
U.S. government securities	-	1,105,000	-	-	1,105,000
Short-term investments	6,958,000	-	-	-	6,958,000
Commodity ETF's	8,468,000	-	-	-	8,468,000
REIT mutual funds	324,000	-	-	-	324,000
Limited partnerships measured at NAV(A)	-	-	-	76,708,000	76,708,000
	<u>139,257,000</u>	<u>48,501,000</u>	<u>-</u>	<u>76,708,000</u>	<u>264,466,000</u>
Beneficial interests in trusts held by others:					
Perpetual trusts	-	-	22,965,000	-	22,965,000
Other trusts	-	-	4,657,000	-	4,657,000
	<u>-</u>	<u>-</u>	<u>27,622,000</u>	<u>-</u>	<u>27,622,000</u>
Totals	<u>\$ 139,257,000</u>	<u>\$ 48,501,000</u>	<u>\$ 27,622,000</u>	<u>\$ 76,708,000</u>	<u>\$ 292,088,000</u>

THE SEEING EYE, INC.
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Notes to Financial Statements
September 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS (CONTINUED)

	Assets at Fair Value as of September 30, 2016				
	Level 1	Level 2	Level 3	NAV	Total
Investments:					
Stocks	\$ 60,332,000	\$ -	\$ -	\$ -	\$ 60,332,000
Equity ETF's and mutual funds	33,919,000	-	-	-	33,919,000
Collective investment trusts	-	41,971,000	-	-	41,971,000
Bond mutual funds	14,885,000	-	-	-	14,885,000
U.S. government securities	-	862,000	-	-	862,000
Short-term investments	7,218,000	-	-	-	7,218,000
Commodity ETF's	8,750,000	-	-	-	8,750,000
REIT mutual funds	339,000	-	-	-	339,000
Limited partnerships measured at NAV(A)	-	-	-	76,290,000	76,290,000
	125,443,000	42,833,000	-	76,290,000	244,566,000
Beneficial interests in trusts held by others:					
Perpetual trusts	-	-	22,540,000	-	22,540,000
Other trusts	-	-	910,000	-	910,000
Totals	<u>\$ 125,443,000</u>	<u>\$ 42,833,000</u>	<u>\$ 23,450,000</u>	<u>\$ 76,290,000</u>	<u>\$ 268,016,000</u>

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Information regarding the Organization's investments reported at NAV as of September 30, 2017, is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Multi-strategy hedge funds (a)	\$ 60,615,000	\$ -	Monthly, quarterly and semi-annual	30-120 days
Private equity funds (b)	14,734,000	21,159,000	N/A	N/A
Private real estate fund (c)	1,359,000	1,763,000	N/A	N/A
	<u>\$ 76,708,000</u>	<u>\$ 22,922,000</u>		

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NOTE D - FAIR VALUE MEASUREMENTS (CONTINUED)

- a) This category includes hedge funds that pursue multiple strategies to diversify risk. One of these funds is a fund of hedge funds.
- b) This category includes private equity fund-of-funds, which invest primarily in a variety of private equity funds managed by others.
- c) This category includes a fund which invests in a variety of real estate investments on a global basis.

The tables below set forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended September 30, 2017 and 2016:

	<u>Beneficial Interests in Trusts</u>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 23,450,000	\$ 23,038,000
Total (losses) gains included in earnings	(324,000)	393,000
Legacies	4,422,000	38,000
Change in value of split-interest agreements	<u>74,000</u>	<u>(19,000)</u>
Balance, end of year	<u>\$ 27,622,000</u>	<u>\$ 23,450,000</u>

The total amount of assets measured using Level 3 valuation methodologies represented approximately 10% and 9% of total net assets as of September 30, 2017 and 2016, respectively.

The availability of observable market data is monitored to assess the appropriate classifications of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such circumstances, the transfer is reported at the beginning of the reporting period. For the years ended September 30, 2017 and 2016, there were no significant transfers into or out of Levels 1, 2 or 3.

Valuation Processes Used in Level 3 Measurements

The Organization discusses and assesses fair value measurements with internally responsible personnel as well as investment advisors, including the methodology used to develop and substantiate unobservable inputs used in Level 3 fair value measurements.

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NOTE E - LAND, BUILDINGS AND EQUIPMENT

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 5,960,000	\$ 5,895,000
Buildings	65,969,000	65,763,000
Furniture and other equipment	7,973,000	7,333,000
Capitalized leased office and garage space	2,508,000	2,508,000
Leasehold improvements	2,874,000	2,874,000
Construction in progress	<u>395,000</u>	<u>351,000</u>
	85,679,000	84,724,000
Less: accumulated depreciation and amortization	<u>41,303,000</u>	<u>38,986,000</u>
Land, buildings and equipment, net	<u>\$ 44,376,000</u>	<u>\$ 45,738,000</u>

Depreciation expense was \$2,369,000 and \$2,451,000 for the years ended September 30, 2017 and 2016, respectively.

Buildings recorded under capital lease at September 30, 2017 and 2016, were \$2,508,000 and related accumulated depreciation at September 30, 2017 and 2016 was \$732,000 and \$649,000, respectively. Depreciation expense for each of the years ended September 30, 2017 and 2016 for buildings recorded under capital lease was \$83,000.

NOTE F - SPLIT-INTEREST AGREEMENTS

The Organization recognizes contribution revenue and related asset and liability when an irrevocable split-interest agreement naming it as trustee or fiscal agent is executed. When an unrelated third party acts as trustee or fiscal agent, the Organization recognizes contribution income when it is notified of the agreement's existence and all relevant information is made known to it. The Organization's split-interest agreements are managed by third-parties, in accordance with stipulations of the donors who established them.

[1] Beneficial interests in perpetual trusts held by others:

A perpetual trust held by a third party is an arrangement in which a donor establishes and funds a trust that is administered by an outside third party. Under the terms of the trust, the Organization has the right to receive its portion of the income earned on the trust assets in perpetuity, but never receives the assets held in trust. The fair value of the trusts is computed at the present value (5% discount rate at September 30, 2017 and 2016) of the estimated future cash flows to be received from the trusts. The fair value of the trusts is recorded as permanently restricted net assets and the changes in fair value of the trusts have been reported in the statements of activities.

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NOTE F - SPLIT-INTEREST AGREEMENTS (CONTINUED)

[2] Beneficial interests in other charitable trusts:

Beneficial interests in other charitable trusts are arrangements in which a donor establishes and funds a trust that is administered by an outside third-party. Under the terms of these trusts, the Organization may have the right to receive a portion of the income earned on the trust assets for a finite period of time and/or, in certain instances, may be entitled to receive its portion of the trust assets upon the termination of the trust. The fair value of the trusts is computed at the present value (discount rates ranging from 3.0% to 5.0% at September 30, 2017 and 2016) of the estimated future cash flows to be received from the trusts. The fair value of the trusts is recorded as temporarily restricted net assets, and the changes in the fair value of the trusts have been reported in the statements of activities.

[3] Charitable gift annuities:

Charitable gift annuities are arrangements in which a donor contributes cash or property to the Organization in exchange for the Organization's promise to make fixed payments to designated beneficiaries. The Organization holds the assets received in segregated funds and records the liability to the beneficiaries at the present value of the estimated future payments expected to be made to them. Upon receipt of the assets establishing the charitable gift annuity, contribution revenue is recognized in an amount equal to the fair value of the assets received less the liability to the beneficiaries. Annually, the Organization revalues the liability to the present value of the estimated future payments to be made to the designated beneficiaries and the changes resulting from this revaluation are reported in the statements of activities. The liability for future payments to beneficiaries approximated \$1,308,000 and \$1,483,000 at September 30, 2017 and 2016, respectively, and is included in accounts payable and accrued expenses in the statements of financial position.

NOTE G - BONDS PAYABLE

Bonds payable at September 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
New Jersey Economic Development Authority ("NJEDA") bonds – 2012, due June 1, 2032 with interest at a rate of 5.0%.	\$ 19,140,000	\$ 19,140,000
New Jersey Economic Development Authority bonds – 2015, due March 1, 2025 with interest at a rate of 5.0%.	<u>14,085,000</u>	<u>14,085,000</u>
	33,225,000	33,225,000
Unamortized bond premium and debt issuance costs, net	<u>3,272,000</u>	<u>3,576,000</u>
	<u>\$ 36,497,000</u>	<u>\$ 36,801,000</u>

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NOTE G - BONDS PAYABLE (CONTINUED)

2012 Bonds:

On June 27, 2012, the NJEDA issued \$19,140,000 (principal amount) of Economic Development Bonds for The Seeing Eye, Inc. 2012 Project (the "2012 Bonds"). The proceeds of the bonds (\$21,208,000) were used to finance the modernization and expansion of the Organization's main campus, to pay interest on the 2012 Bonds during construction and certain costs of issuance of the 2012 Bonds. The bond premium (\$2,068,000) and debt issuance costs (\$571,000) are being amortized over the life of the 2012 Bonds using the effective interest rate method. The effective interest rate for the 2012 Bonds is 4.41%. The 2012 Bonds are subject to optional redemption by the NJEDA, at the written direction of the Organization at a redemption price of 100% of the principal amount to be redeemed, in whole, at any time on or after June 1, 2022, or in part, on any interest payment date on or after June 1, 2022, plus accrued interest thereon. Semiannual interest payments are payable on December 1 and June 1.

2015 Bonds:

On March 4, 2015, the NJEDA issued \$14,085,000 (principal amount) of Economic Development Bonds for The Seeing Eye, Inc. 2015 Project (the "2015 Bonds"). The proceeds of the bonds (\$17,223,000) were used to provide a portion of the funds for the redemption of Bonds issued in 2005, and to pay certain costs of issuance of the 2015 Bonds. The bond premium (\$3,138,000) and debt issuance costs (\$464,000) are being amortized over the life of the 2015 Bonds using the effective interest rate method. The effective interest rate for the 2015 Bonds is 2.81%. Semiannual interest payments are payable on September 1 and March 1.

The redemption price of principal and interest on the 2012 and 2015 Bonds are payable solely from payments to be made by the Organization under loan agreements by, and between, the NJEDA and the Organization. The 2012 and 2015 Bonds are collateralized, on a parity basis, by all unrestricted contributions, donations, legacies, gifts, grants and pledges received, whether in the form of cash, securities or other personal property, in an amount up to the annual debt service requirements, plus the greater of \$50,000 or fees and expenses of the trustee and the NJEDA for the prior bond year.

Interest expense incurred on the bonds payable for the years ended September 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Interest paid	\$ 1,661,000	\$ 1,661,000
Amortization of bond premium and debt issuance costs, net	<u>(304,000)</u>	<u>(295,000)</u>
	<u>\$ 1,357,000</u>	<u>\$ 1,366,000</u>

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NOTE G - BONDS PAYABLE (CONTINUED)

Amortization of the bond premiums and debt issuance costs, net, and the effect on the reduction in interest expense for the next five years ending September 30 is as follows:

<u>Years Ending</u> <u>September 30,</u>	
2018	\$ 314,000
2019	323,000
2020	334,000
2021	344,000
2022	355,000

The fair value of the bonds payable is \$38,222,000 and \$40,176,000 at September 30, 2017 and 2016 respectively. The fair value of the bonds was determined by an investment firm using estimated yields for securities with similar characteristics.

NOTE H - RETIREMENT PLANS

The Organization has a defined benefit pension plan (the "Plan") covering substantially all of its employees who have attained the age of 21 years and completed one year of service. All pension assets held by the Plan are deposited into funds that invest in equity securities, government and corporate bonds, and short-term investments. Annual contributions made to the Plan are based upon funding requirements under the Employee Retirement Income Security Act of 1974.

As of September 30, 2017 and 2016, the pension fund assets are invested 58% and 60% in equity securities, 39% and 40% in debt securities, and 3% and 0% in cash equivalents, respectively. The Organization's investment strategy is established by the Organization's Finance and Investment Committee to provide for growth of capital with a moderate level of volatility by investing assets per the target allocations. The investment policy is reviewed on a regular basis under the advisement of a certified investment advisor, to determine if the policy should be changed.

The expected long-term rate of return for the pension benefit plan is 6.0% as of September 30, 2017 and 2016, respectively. This rate was developed by estimating the expected long-term real return for each asset class within the portfolio, computing an average weighted real rate of return for the portfolio as a whole, reflecting both the Plan's expected asset class allocation and the correlations between the various asset classes and adding that expected real rate of return to the expected long-term rate of inflation. The expected long-term rate of return reflects an expected real rate of return and an underlying inflation component per year.

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NOTE H - RETIREMENT PLANS (CONTINUED)

The following tables set forth the Plan's funded status and amounts recognized in the Organization's statements of financial position as of September 30, 2017 and 2016:

	Pension Benefits		Other Post Retirement Benefits	
	September 30,		September	
	2017	2016	2017	2016
Projected benefit obligation	\$ 37,334,000	\$ 38,516,000	\$ 12,672,000	\$ 11,725,000
Plan assets at fair value	<u>28,591,000</u>	<u>24,998,000</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (8,743,000)</u>	<u>\$ (13,518,000)</u>	<u>\$ (12,672,000)</u>	<u>\$ (11,725,000)</u>
Items not yet recognized as a component of net periodic pension cost:				
Prior service credit	\$ -	\$ -	\$ (1,776,000)	\$ (1,954,000)
Net actuarial loss	<u>9,659,000</u>	<u>15,249,000</u>	<u>4,043,000</u>	<u>4,143,000</u>
	<u>\$ 9,659,000</u>	<u>\$ 15,249,000</u>	<u>\$ 2,267,000</u>	<u>\$ 2,189,000</u>
Components of net periodic pension cost for fiscal years 2017 and 2016:				
Service cost	\$ 1,389,000	\$ 1,213,000	\$ 523,000	\$ 440,000
Interest cost	1,213,000	1,307,000	439,000	393,000
Expected return on plan assets	(1,481,000)	(1,413,000)	-	-
Amortization of prior service (credit)/cost	-	-	(178,000)	(178,000)
Amortization of net loss	1,006,000	967,000	246,000	90,000
Settlement cost	-	1,239,000	-	-
Net periodic pension cost	<u>\$ 2,127,000</u>	<u>\$ 3,313,000</u>	<u>\$ 1,030,000</u>	<u>\$ 745,000</u>

During the year ended September 30, 2016, the Organization settled certain participants vested benefit obligations by making lump-sum payments to them totaling \$3,129,000. Since these payments exceeded the current year service cost and interest cost, a remeasurement of the pension cost and the plan's obligations was necessary.

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NOTE H - RETIREMENT PLANS (CONTINUED)

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Employer contributions	\$ 1,313,000	\$ 1,250,000	\$ 161,000	\$ 160,000
Plan participant contributions and Medicare subsidy	-	-	73,000	66,000
Benefits paid	535,000	3,478,000	234,000	226,000

Weighted average assumptions as of September 30, 2017 and 2016 are as follows:

Discount rate	3.54%	3.24%	3.82%	3.59%
Expected return on plan assets	6.00%	6.00%	-	-
Rate of compensation increase	3.75%	3.75%	-	-

Expected contributions for the pension benefit plan and other postretirement benefit plan for fiscal year ending September 30, 2017, are as follows:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
Expected employer contributions	\$ 1,378,000	\$ 239,000
Expected employee contributions	-	57,000

Estimated future benefits reflecting expected future service for the pension benefit plan and other postretirement benefit plan for the fiscal years ending September 30, are as follows:

	<u>Pension Benefits</u>	<u>Other Postretirement Benefits</u>
2018	\$ 2,717,000	\$ 182,000
2019	3,213,000	228,000
2020	2,405,000	271,000
2021	2,204,000	307,000
2022	2,705,000	349,000
2023 - 2026	12,905,000	2,358,000

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NOTE H - RETIREMENT PLANS (CONTINUED)

The expected cost of retiree health and life insurance benefits is charged to expense during the years that the employees render services. The assumed health care cost trend rate used to project the expected cost of benefits covered by the postretirement benefit plan for the year ended September 30, 2017 is 5.5% for medical costs and 9.5% for prescription costs. Thereafter, the trend rate is assumed to decrease annually until it reaches an ultimate rate of 4.5% in 2027 for medical costs and prescription costs.

NOTE I - CAPITAL LEASE OBLIGATION

The Organization has entered into a capital lease for office and garage space with a minimum lease term of 30 years, which commenced January 1, 2009.

The following is a schedule, by year, of future minimum lease payments under capital lease obligations, together with the present value of the net minimum lease payments, as of September 30, 2017:

<u>Year Ending</u> <u>September 30,</u>	
2018	\$ 182,000
2019	184,000
2020	184,000
2021	188,000
2022	189,000
Thereafter	<u>3,610,000</u>
Total minimum lease payments	4,537,000
Less: amount representing interest	<u>2,122,000</u>
Present value of minimum lease payments	<u>\$ 2,415,000</u>

The present value of minimum future obligations shown above is calculated based on an interest rate of 6.16%.

NOTE J - RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2017 and 2016 are comprised of:

	<u>2017</u>	<u>2016</u>
Investments to be held in perpetuity, the income from which is primarily restricted for program support services and facilities maintenance	\$ 5,980,000	\$ 5,967,000
Beneficial interest in perpetual trusts, the income from which is unrestricted	<u>22,965,000</u>	<u>22,540,000</u>
	<u>\$ 28,945,000</u>	<u>\$ 28,507,000</u>

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NOTE J - RESTRICTED NET ASSETS (CONTINUED)

Temporarily restricted net assets at September 30, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</u>
Beneficial interest in other trusts, the income from which is unrestricted	\$ 4,657,000	\$ 910,000
Purpose restricted	112,000	584,000
Multi-year pledges receivable	50,000	455,000
Unappropriated endowment earnings	<u>220,000</u>	<u>503,000</u>
	<u>\$ 5,039,000</u>	<u>\$ 2,452,000</u>

During the years ended September 30, 2017 and 2016, net assets were released from donor restrictions as a result of satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	<u>2017</u>	<u>2016</u>
Purpose/timing for which restrictions were accomplished:		
Purpose restriction	\$ 767,000	\$ 454,000
Timing restriction	405,000	396,000
Appropriation of endowment earnings	<u>298,000</u>	<u>33,000</u>
	<u>\$ 1,470,000</u>	<u>\$ 883,000</u>

NOTE K - ENDOWMENT AND BOARD-DESIGNATED FUNDS

Endowment and Board-designated net assets consist of many funds established for a variety of purposes and include donor-restricted funds and funds designated by the Board of Trustees. As required by accounting principles generally accepted in the United States of America, net assets associated with these funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date to the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations and decrements to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

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NOTE K - ENDOWMENT AND BOARD-DESIGNATED FUNDS (CONTINUED)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) the duration and preservation of the fund;
- (2) the purposes of the Organization and the donor-restricted endowment fund;
- (3) general economic conditions;
- (4) the possible effect of inflation and deflation;
- (5) the expected total return from income and appreciation of investments;
- (6) other resources of the Organization; and
- (7) the investment policies of the Organization.

Endowment and Board-designated net assets' composition by type as of September 30, 2017, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investments:				
Donor-restricted endowment funds	\$ -	\$ 220,000	\$ 5,980,000	\$ 6,200,000
Board-designated funds:				
Long-term investment fund	254,477,000	-	-	254,477,000
Charitable gift annuity fund	<u>3,789,000</u>	<u>-</u>	<u>-</u>	<u>3,789,000</u>
	<u>\$ 258,266,000</u>	<u>\$ 220,000</u>	<u>\$ 5,980,000</u>	<u>\$ 264,466,000</u>

Endowment and Board-designated net assets' composition by type as of September 30, 2016, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investments:				
Donor-restricted endowment funds	\$ -	\$ 503,000	\$ 5,967,000	\$ 6,470,000
Board-designated funds:				
Long-term investment fund	234,485,000	-	-	234,485,000
Charitable gift annuity fund	<u>3,611,000</u>	<u>-</u>	<u>-</u>	<u>3,611,000</u>
	<u>\$ 238,096,000</u>	<u>\$ 503,000</u>	<u>\$ 5,967,000</u>	<u>\$ 244,566,000</u>

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NOTE K - ENDOWMENT AND BOARD-DESIGNATED FUNDS (CONTINUED)

The Organization's Board of Trustees has adopted an investment spending policy for endowment and board-designated net assets designed to provide a predictable flow of funds to support annual operating activities. The spending policy is intended to balance current spending needs and preserve the future purchasing power of the endowment and board-designated net assets. Under the investment spending policy, the Organization's Board of Trustees appropriates endowment and board-designated funds to support operations at a level of 5% of the 12 quarter moving average of the fair value of such funds as of June 30 of the year immediately preceding the beginning of the Organization's fiscal year. The Organization's Board of Trustees sets the percentage spending rate and may approve special allocations from time to time, if determined to be necessary. Any excess of the amounts appropriated pursuant to this policy over actual amounts used by operations, are returned to the endowment and board-designated funds for use in future years.

Changes in endowment and board-designated net assets for the year ended September 30, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment and board-designated funds, beginning of year	<u>\$ 238,096,000</u>	<u>\$ 503,000</u>	<u>\$ 5,967,000</u>	<u>\$ 244,566,000</u>
Donor contributions	<u>-</u>	<u>-</u>	<u>13,000</u>	<u>13,000</u>
Investment return, net	<u>28,737,000</u>	<u>23,000</u>	<u>-</u>	<u>28,760,000</u>
Uses of net investment assets, net:				
Investment assets appropriated for operations	<u>(11,510,000)</u>	<u>(306,000)</u>	<u>-</u>	<u>(11,816,000)</u>
Payments under split-interest agreements	<u>(224,000)</u>	<u>-</u>	<u>-</u>	<u>(224,000)</u>
Appropriations of investment assets returned to board-designated investment funds	<u>3,167,000</u>	<u>-</u>	<u>-</u>	<u>3,167,000</u>
	<u>20,170,000</u>	<u>(283,000)</u>	<u>-</u>	<u>19,887,000</u>
Endowment and board-designated funds, end of year	<u>\$ 258,266,000</u>	<u>\$ 220,000</u>	<u>\$ 5,980,000</u>	<u>\$ 264,466,000</u>

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NOTE K - ENDOWMENT AND BOARD-DESIGNATED FUNDS (CONTINUED)

Changes in endowment and board-designated net assets for the year ended September 30, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment and board-designated funds, beginning of year	\$ 222,506,000	\$ 472,000	\$ 5,959,000	\$ 228,937,000
Donor contributions	-	-	6,000	6,000
Investment return, net	20,944,000	249,000	2,000	21,195,000
Uses of net investment assets, net:				
Investment assets appropriated for operations	(11,254,000)	(218,000)	-	(11,472,000)
Payments under split-interest agreements	(235,000)	-	-	(235,000)
Appropriations of investment assets returned to board-designated investment funds	6,135,000	-	-	6,135,000
	<u>15,590,000</u>	<u>31,000</u>	<u>2,000</u>	<u>15,623,000</u>
Endowment and board-designated funds, end of year	<u>\$ 238,096,000</u>	<u>\$ 503,000</u>	<u>\$ 5,967,000</u>	<u>\$ 244,566,000</u>

The Organization's permanently restricted net assets include \$22,965,000 and \$22,540,000 at September 30, 2017 and 2016, respectively, of beneficial interests in perpetual trusts which are not reflected above as a component of permanently restricted endowment funds.

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment only)

	<u>2017</u>	<u>2016</u>
<u>Permanently Restricted Net Assets</u>		
The portion of endowment funds that are permanently restricted by explicit donor stipulation	<u>\$ 5,980,000</u>	<u>\$ 5,967,000</u>
<u>Temporarily Restricted Net Assets</u>		
Term endowment funds:		
The portion of endowment funds subject to restriction under UPMIFA:		
With purpose restrictions	\$ 7,000	\$ 51,000
Without purpose restrictions	<u>213,000</u>	<u>452,000</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 220,000</u>	<u>\$ 503,000</u>

THE SEEING EYE, INC.
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Notes to Financial Statements
September 30, 2017 and 2016

NOTE K - ENDOWMENT AND BOARD-DESIGNATED FUNDS (CONTINUED)

The Organization's return objectives, risk parameters and strategies employed for achieving the objectives of its various endowments are:

[1] Donor-restricted endowments:

Certain donor-restricted endowments are invested in U.S. government securities pursuant to stipulations of the donor. The Organization has adopted investment and spending practices for its remaining donor-restricted endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment, while seeking to preserve the original value of the gift.

[2] Board-designated funds:

The board-designated funds consist of (a) investments that have been board-designated for long-term investment purposes, and (b) investments segregated for use in meeting the Organization's obligations under charitable gift annuity contracts.

The Board of Trustees has adopted investment objectives and policies for the board-designated long-term endowment fund, and has delegated oversight authority over this fund to the Trustee's Finance and Investment Committee (the "Committee"). The overall objective of this fund is to provide a reliable, recurring level of financial support of the Organization's programs, consistent with maintaining the fund's purchasing power over time and sufficient to ensure the Organization's prudent ability to plan strategically for the long-term continued success of its mission. The primary objective of the Committee is to seek stable total real returns over the long-term, while ensuring adequate current liquidity and cash flow to meet operating needs and with an emphasis on preservation of the fund's principal. The Committee has the discretion to determine the portfolio composition and asset allocation of the fund, both by asset class and within each class. As of September 30, 2017, the assets of this fund were invested as follows: stocks, stock mutual funds and collective investment trusts (60%), fixed income and short-term investments (7%), commodity exchange traded funds (3%) and limited partnerships (30%).

The Board of Trustees has authorized the establishment of a segregated fund to meet the Organization's obligations under charitable gift annuity contracts, and adopted an investment policy for such funds designed to provide for long-term growth of capital. To achieve this objective, the policy targets a diversified asset allocation that places a greater emphasis on equity-based investments. As of September 30, 2017, the assets of this fund were invested 60% in stock mutual funds, 30% in bond mutual funds and short-term investments, 8% in REIT mutual funds, and 2% in commodity exchange traded funds.

NOTE L - SIGNIFICANT RISKS AND UNCERTAINTIES

[1] Concentration of cash balances:

The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and, as such, believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE M - TRANSACTIONS WITH RELATED PARTY

During the years ended September 30, 2017 and 2016, Senior Executives of Morgan Stanley were trustees of the Organization. Fees paid to Morgan Stanley, in respect to investment funds managed by Morgan Stanley, for the years ended September 30, 2017 and 2016 were approximately \$237,000 and \$257,000, respectively.

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Notes to Financial Statements
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NOTE N - RECLASSIFICATION

Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation.

NOTE O - SUBSEQUENT EVENT

On December 5, 2017, the NJEDA issued \$19,340,000 (principal amount) of Economic Development Refunding Bonds for The Seeing Eye, Inc. 2017 Project (the "2017 Bonds"). The proceeds of the 2017 Bonds (\$21,985,000) were utilized for the advance refunding of the 2012 Bonds, interest due on the 2012 Bonds and to pay certain costs of issuance of the 2017 Bonds. The 2017 Bonds are due June 1, 2032 and bear interest at a rate of 4.48%.

THE SEEING EYE, INC.
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Schedule of Functional Expenses
Year Ended September 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Expenses, excluding endowment management fee:				
Salaries and wages	\$ 8,042,000	\$ 674,000	\$ 973,000	\$ 9,689,000
Employee benefits and payroll taxes	5,521,000	360,000	493,000	6,374,000
Occupancy	1,929,000	109,000	35,000	2,073,000
Professional fees	228,000	219,000	150,000	597,000
Interest	1,509,000	-	-	1,509,000
External communications	230,000	-	-	230,000
Canine support and research	1,498,000	-	-	1,498,000
Telephone, postage and office	269,000	68,000	105,000	442,000
Travel and auto	546,000	20,000	13,000	579,000
Fund-raising campaigns and events	-	-	1,563,000	1,563,000
Other	95,000	20,000	65,000	180,000
Depreciation	2,201,000	136,000	32,000	2,369,000
	<u>\$ 22,068,000</u>	<u>\$ 1,606,000</u>	<u>\$ 3,429,000</u>	<u>\$ 27,103,000</u>

THE SEEING EYE, INC.
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Schedule of Functional Expenses (continued)
Year Ended September 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Expenses, excluding endowment management fee:				
Salaries and wages	\$ 8,024,000	\$ 650,000	\$ 838,000	\$ 9,512,000
Employee benefits and payroll taxes	6,427,000	337,000	427,000	7,191,000
Occupancy	1,836,000	105,000	33,000	1,974,000
Professional fees	270,000	146,000	141,000	557,000
Interest	1,519,000	-	-	1,519,000
External communications	198,000	-	2,000	200,000
Canine support and research	1,396,000	-	-	1,396,000
Telephone, postage and office	292,000	67,000	93,000	452,000
Travel and auto	522,000	19,000	6,000	547,000
Fund-raising campaigns and events	-	-	1,435,000	1,435,000
Other	119,000	20,000	42,000	181,000
Depreciation	2,276,000	144,000	31,000	2,451,000
	<u>\$ 22,879,000</u>	<u>\$ 1,488,000</u>	<u>\$ 3,048,000</u>	<u>\$ 27,415,000</u>