Retina Foundation of the Southwest

Financial Report
December 31, 2016

C O N T E N T S

Independent Auditor's Report

Board of Directors
Retina Foundation of the Southwest

We have audited the accompanying financial statements of Retina Foundation of the Southwest (the Foundation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows 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 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 audit 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.

Board of Directors
Retina Foundation of the Southwest

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Retina Foundation of the Southwest as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell L.L.P.
WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
June 29, 2017

Retina Foundation of the Southwest

Statements of Financial Position
Years Ended December 31, 2016 and 2015

ASSETS	2016	2015
ASSETS		
Cash and cash equivalents	$ 4,484,426	$ 2,951,356
Capital campaign cash and cash equivalents	107,662	123,276
Investments	8,922,249	8,544,752
Accounts and grants receivable	456,925	747,241
Pledges receivable, net	42,605	212,302
Prepaid expenses	59,906	54,088
Land, building, and equipment, net	3,720,391	3,842,822
TOTAL ASSETS	$ 17,794,164	$ 16,475,837
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 102,293	$ 171,639
Retirement plan accrual	101,654	108,302
Deferred revenues	472,996	219,450
Mortgage note payable	609,971	1,086,300
TOTAL LIABILITIES	1,286,914	1,585,691
NET ASSETS		
Unrestricted net assets	4,435,641	3,801,406
Unrestricted board designated net assets	2,415,757	2,161,648
Total unrestricted net assets	6,851,398	5,963,054
Temporarily restricted net assets	3,551,782	2,823,022
Permanently restricted net assets	6,104,070	6,104,070
TOTAL NET ASSETS	16,507,250	14,890,146
TOTAL LIABILITIES AND NET ASSETS	$ 17,794,164	$ 16,475,837

The Notes to the Financial Statements are an integral part of these statements.

Retina Foundation of the Southwest

Statements of Activities

Years Ended December 31, 2016 and 2015

	Year ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Government grants	$ 959,447	$ -	$ -	$ 959,447
Contributions and other grants	1,624,229	1,567,494	-	3,191,723
Special events	476,627	-	-	476,627
Investment income and realized loss on investments	58,799	107,852	-	166,651
Unrealized gain (loss) on investments	213,659	270,646	-	484,305
Other income (loss)	(375)	-	-	(375)
TOTAL	3,332,386	1,945,992	-	5,278,378
Net assets released from restriction	1,217,232	(1,217,232)	-	-
TOTAL SUPPORT AND REVENUES	4,549,618	728,760	-	5,278,378
EXPENSES				
Program	2,816,509	-	-	2,816,509
Management and general	468,204	-	-	468,204
Development	376,561	-	-	376,561
TOTAL EXPENSES	3,661,274	-	-	3,661,274
CHANGES IN NET ASSETS	888,344	728,760	-	1,617,104
NET ASSETS AT BEGINNING OF YEAR	5,963,054	2,823,022	6,104,070	14,890,146
NET ASSETS AT END OF YEAR	$ 6,851,398	$ 3,551,782	$ 6,104,070	$ 16,507,250

The Notes to the Financial Statements are an integral part of these statements.

Year ended December 31, 2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 1,067,337	$ -	$ -	$ 1,067,337
1,833,438	2,198,611	-	4,032,049
436,664	231,430	-	668,094
79,385	206,276		285,661
(261,889)	(180,804)	-	(442,693)
11,168	-	-	11,168
3,166,103	2,455,513	-	5,621,616
892,348	(892,348)	-	-
		-	
4,058,451	1,563,165	-	5,621,616
3,030,119	-	-	3,030,119
456,022	-	-	456,022
394,176	-	-	394,176
3,880,317	-	-	3,880,317
178,134	1,563,165	-	1,741,299
5,784,920	1,259,857	6,104,070	13,148,847
$ 5,963,054	$ 2,823,022	$ 6,104,070	$ 14,890,146

Retina Foundation of the Southwest

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,617,104	$ 1,741,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-operating capital campaign receipts and pledges receivable	(395,913)	(229,750)
Depreciation	180,348	178,289
Realized loss on investments	82,085	1,832
Unrealized (gain) loss on investments	(484,305)	442,693
Loss on sale of land, building, and equipment	8,218	-
Decrease in accounts and grants receivable	290,316	51,140
Increase in prepaid expenses	(5,818)	(11,558)
(Decrease) increase in accounts payable and accrued expenses and retirement plan accrual	(75,994)	109,893
Increase in deferred revenue	253,546	88,450
Net cash provided by operating activities	1,469,587	2,372,288
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,748,277)	(2,011,933)
Redemption/sale of investments	1,773,000	1,993,272
Decrease in non-operating capital campaign cash and cash equivalents and pledges receivable-capital campaign, net	185,311	41,016
Purchases of land, building, and equipment	(66,135)	(121,296)
Net cash provided by (used in) investing activities	143,899	(98,941)
CASH FLOWS FROM FINANCING ACTIVITIES		
Non-operating capital campaign receipts and pledges receivable	395,913	229,750
Payments on mortgage note payable	(476,329)	(341,625)
Net cash used in financing activities	(80,416)	(111,875)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,533,070	2,161,472
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,951,356	789,884
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,484,426	$ 2,951,356
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 37,034	$ 51,850

The Notes to the Financial Statements are an integral part of these statements.

Retina Foundation of the Southwest

Statements of Functional Expenses

Years Ended December 31, 2016 and 2015

December 31, 2016	Program	Management and General	Development	Total
Compensation and benefits	$ 1,961,428	$ 350,061	$ 221,150	$ 2,532,639
Lab, patient and other program expenses	143,539	-	-	143,539
General insurance	23,538	10,431	1,410	35,379
General office and maintenance expense	79,479	24,419	20,096	123,994
Interest expense	29,788	6,162	1,084	37,034
Investment fees	-	1,350	-	1,350
Other expenses	56,336	15,431	28,637	100,404
Professional services	41,985	14,222	11,074	67,281
Common area maintenance expenses	120,829	24,997	4,398	150,224
Special events	5,526	-	83,852	89,378
Sub-contract agreements	100,187	-	-	100,187
Travel and conference	55,544	2,203	2,327	60,074
Total before depreciation and bad debt expense	2,618,179	449,276	374,028	3,441,483
Depreciation expense	158,887	18,928	2,533	180,348
Bad debt expense	39,443	-	-	39,443
TOTAL EXPENSES	$ 2,816,509	$ 468,204	$ 376,561	$ 3,661,274

December 31, 2015	Program	Management and General	Development	Total
Compensation and benefits	$ 2,101,999	$ 295,248	$ 228,261	$ 2,625,508
Lab, patient and other program expenses	147,750	-	-	147,750
General insurance	24,488	6,615	4,080	35,183
General office and maintenance expense	102,209	26,583	18,171	146,963
Interest expense	44,340	6,665	845	51,850
Investment fees	-	1,800	-	1,800
Other expenses	48,710	41,633	28,583	118,926
Professional services	65,445	33,873	730	100,048
Common area maintenance expenses	122,931	18,488	2,343	143,762
Special events	2,678	-	108,287	110,965
Sub-contract agreements	172,524	60	353	172,937
Travel and conference	43,925	1,543	868	46,336
Total before depreciation	2,876,999	432,508	392,521	3,702,028
Depreciation expense	153,120	23,514	1,655	178,289
TOTAL EXPENSES	$ 3,030,119	$ 456,022	$ 394,176	$ 3,880,317

The Notes to the Financial Statements are an integral part of these statements.

Retina Foundation of the Southwest

Notes to Financial Statements

Note 1. Nature and Purpose of the Foundation

Retina Foundation of the Southwest (The Foundation) was organized in 1975 as a Texas not-profit corporation. The Foundation was organized to promote the research, diagnosis, treatment and education of the leading causes of blindness and impaired vision. The Foundation also strives to increase the understanding of the normal development and function of the visual system in order to better prevent, diagnose and treat sight-threatening conditions; and to enhance the rehabilitation, training and quality of life of individuals who are partially-sighted or blind.

Note 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

Basis of Accounting

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Basis of Presentation

The Foundation presents its financial statements in accordance with Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 958 Not-for-Profit Entities. Under FASB ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets represent resources that are available for the support of operations. All contributions are available for unrestricted use in accordance with the Foundation's nature and purpose as described in the corporate documents unless specifically restricted by creditors or other contractual agreements. Unrestricted board designated net assets are designated by the Board of Directors as restricted for research expenditures (see Endowment Investments).

Temporarily restricted net assets include unspent grants, gifts, and other program income expendable only for purposes specified or approved by the donor or for use in a particular future period and are included in cash and cash equivalents, capital campaign cash and cash equivalents and pledges receivable-capital campaign, net in the Statements of Financial Position. In addition, the Foundation's unspent appreciation and investment earnings of its donor-restricted endowment funds are classified as temporarily restricted net assets and are included in endowment investments in the Statements of Financial Position. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets.

Net assets restricted for acquisition of buildings or equipment (included in pledges receivable and capital campaign cash and cash equivalents in the Statements of Financial Position) are reported as temporarily restricted until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use.

Permanently restricted net assets consist of endowment fund assets that must be maintained in perpetuity and whose use is limited by donor imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time.

All revenues and net gains are reported as increases in unrestricted net assets in the Statement of Activities unless the use of the related resources is subject to temporary or permanent donor restrictions. Contribution received with temporary donor restrictions that are expended for the restricted purpose within the same year are reported as unrestricted support. All expenses and net losses, other than losses on endowment investments, are reported as decreases in unrestricted net assets. Net losses on endowment investments reduce temporarily restricted net assets to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in unrestricted net assets. If an endowment fund has no net gains from prior years such as when a fund is newly established, net losses are classified as decreases in unrestricted net assets.

Cash Equivalents

At December 31, 2016 and 2015, cash and cash equivalent consists of cash on hand, money market accounts, and all highly liquid investments purchased with an initial maturity of 90 days or less. Cash and cash equivalents are reported at cost which approximates fair value. The Foundation maintains cash balances at various financial institutions, which at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable consist primarily of unsecured non-interest bearing amounts due from grantors on cost reimbursement grants. Bad debts are accounted for using the reserve method. Management periodically reviews accounts on an account-by-account basis. Accounts are written off when it appears collection efforts will not be successful. There is no allowance for uncollectible accounts receivable as of December 31, 2016 and 2015.

Pledges Receivable

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Unconditional promises to give are included on the financial statements as pledges receivable and contribution revenue of the appropriate net asset category. The Foundation reports contributions as restricted support if the support is received with donor restrictions that limit the use of the donated assets. When and if a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the Foundation reports the support as unrestricted. Support that is not restricted by the donor is reported as an increase in unrestricted net assets in the reporting period in which the support is recognized.

Pledges receivable are recorded based on the amount pledged by donors. Pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts are computed using a risk-adjusted interest rates applicable to the years in which the pledges are made. Unconditional promises to give received during the years ended June 30, 2016 and 2015 have been discounted at 4%. Amortization of the discounts is included in temporarily restricted contributions in accordance with donor-imposed restrictions, if any, on the contributions.

Land, Building, and Equipment

Land, building, and equipment are recorded at cost, representing the purchase price at the date of acquisition. Donated property and equipment are recorded at fair value at the date of gift. Depreciation expense is computed using the straight-line method over estimated useful lives of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

Equipment	5 - 10 years
Building and improvements	39 years

The Foundation capitalizes property and equipment with a cost greater than $5,000 and a useful life of greater than one year. The Foundation reviews the carrying value of long-lived assets to determine if facts and circumstances suggest that they may be impaired or that the depreciation or amortization period may need to be changed. If circumstances indicate the long-lived asset will not be recoverable, the carrying value of the long-lived asset will be reduced. The Foundation does not believe there are any indicators that would require an adjustment of the carrying value of its long-lived assets or their remaining useful lives as of December 31, 2016.

Investments

Donor-restricted permanent endowments, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation are being used to support the Foundation's activities.

Board designated endowments are resources set aside by the Board of Directors for an indeterminate period to operate in a manner similar to a donor-restricted permanent endowment. Because a board-designated endowment results from an internal designation, it can be spent upon action of the Board of the Directors.

Endowment investments are reported at fair value and include investments purchased with unspent investment income and net gains on these resources. Investment income includes dividends and interest and is recognized as revenue in the period in which it is earned as increases in unrestricted net assets for board-designated endowments and temporarily restricted net assets for all other endowments. Realized and unrealized gains and losses on investments are classified and recorded as increases or decreases in unrestricted or temporarily restricted net assets. The investment and spending policies for the Endowment Funds are discussed in Note 7.

Revenue Recognition

Contributions

Contributions, including unconditional promises to give, are recorded as the promises are made. All contributions are available for unrestricted use unless specifically restricted by the donor in which case they would be reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises to give due in subsequent years are reported at the present value of their estimated net realizable value and have an implied restriction to be used in the year the payment is due and therefore are reported as temporarily restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions.

Grant Revenue

Grant revenue is recognized when qualifying costs are incurred for cost-reimbursement grants or contracts. Grant revenue from federal agencies is subject to independent audit under the Uniform Grant Guidance and review by grantor agencies. Revenue from grants which have the characteristics of an exchange transaction is recognized when earned (generally as funds are expended for grant purposes) as unrestricted revenue when the related obligations have been satisfied. Revenue form grants that include provisions for payment based upon the achievement of defined milestones is recorded when the defined specific outcome resulting from the Foundation's past performance is achieved and the consideration earned is not at risk of being refunded or adjusted based on actual costs incurred. Grant revenue received in exchange transactions is recognized as deferred revenue to the extent that the earnings process has not been completed.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and supporting services are presented on the functional basis in the Statement of Activities. The Statement of Functional Expenses presents the allocation of expenses to program, management and general and development functions. Expenses that can be identified with a specific program or support services are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefitted.

General and administration expenses include those costs that are not directly identified with a specific program, but which provide for the overall support and direction of the Foundation.

Tax Status

The Foundation has been recognized by the Internal Revenue Service as a nonprofit corporation exempt from federal income tax on its income, under Section 501(c)(3) of the Internal Revenue Code. The Foundation follows the provisions of ASC 740-10, Income Taxes, related to unrecognized tax positions. The Foundation recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the positions. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Foundation does not believe there are any material uncertain tax positions and accordingly, it will not recognize any liability for unrecognized tax benefits. For the years ended December 31, 2016 and 2015, there were no interest or penalties recorded or included in the financial statements. The Foundation is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status. However, the conclusions regarding accounting for uncertainty in income taxes will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

The Foundation's informational returns are generally subject to examination for three years after the later of the due date or date of filing. As a result, the Foundation is no longer subject to income tax examinations by tax authorities for years prior to 2013.

Subsequent Events

Management has reviewed events occurring subsequent to December 31, 2016, through the issuance date of the financial statements. Based on management’s review, other than the matters disclosed in Note 8 relating to the mortgage note payable, no other events have occurred requiring disclosure.

Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations*. The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The effective date for this ASU is the same as the effective date for ASU No. 2015-09, *Revenue from Contracts with Customers (Topic 606)* which provides a single set of guidelines for revenue recognition to be used across all industries and requires additional disclosures. These standards are effective for annual and interim periods beginning as of December 15, 2018 and earlier application is allowed for periods beginning after December 15, 2016. Management is currently evaluating the potential impact of these standards on its financial statements.

In February 2016, The FASB issued ASU No. 2016-02, *Leases*. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. The ASU is effective for fiscal years beginning after December 15, 2018. Management is currently assessing the impact of this ASU on its financial statements, but expects that it will result in increases in its long-term assets and liabilities.

In January 2016, the FASB issued ASU No 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which makes limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The update significantly revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The update will take effect for the Foundation for fiscal years beginning after December 15, 2018. The Foundation does not believe the adoption of this ASU will have a material effect on its financial statements.

Note 3: Investments

Investments held by the Foundation at December 31, 2016 and 2015 are as follows:

	2016	2015
Mutual funds	$ 7,718,049	$ 7,748,290
Exchange traded funds	1,204,200	796,462
Total investments	$ 8,922,249	$ 8,544,752

Investment Categories

To the extent available, the Foundation's investments are recorded at fair value based on quoted prices in active markets on a trade-date basis. The Foundation's investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations.

Investments are categorized by asset class and valued as described below:

Mutual funds: Determined by the published net asset value per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date.

Exchange traded funds: Determined by the published net asset value per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date.

Fair Value

The Foundation follows FASB ASC Topic 820, Fair Value Measurements, which provides the framework for measuring fair value. FASB ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. 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 FASB ASC 820-10-50-2 are described below:

Level 1 – Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 – Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Level 3 inputs have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Valuations are derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and require significant professional judgment in determining the fair value assigned to such assets or liabilities. Certain alternative investments may be reclassified to Level 2 when the Foundation has the ability to redeem them at NAV in the near term without significant restrictions on redemption.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Foundation evaluates its hierarchy disclosures each reporting period and, based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Foundation expects that changes in classifications between different levels will be rare.

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds	$ 7,718,049	$ -	$ -	$ 7,718,049
Exchange traded funds	1,204,200	-	-	1,204,200
	$ 8,922,249	$ -	$ -	$ 8,922,249

	December 31, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds	$ 7,748,290	$ -	$ -	$ 7,748,290
Exchange traded funds	796,462	-	-	796,462
	$ 8,544,752	$ -	$ -	$ 8,544,752

The Foundation's investment income for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Investment income	$ 248,736	$ 287,493
Realized loss	(82,085)	(1,832)
Unrealized gain (loss)	484,305	(442,693)
Total investment return	$ 650,956	$ (157,032)

Note 4: Pledges Receivable

Pledges receivable represent unconditional promises to give relating to the Foundation's capital campaign to purchase land and building in 2012 (see Note 8). Amounts due in less than one year of $45,333 and $150,929 as of December 31, 2016 and 2015, respectively, are stated at net realizable value. Amounts due in one to three years of $6,667 and $61,373 as of December 31, 2016 and 2015, respectively are stated at fair value net of present value discount of $256 and $2,821 at December 31, 2016 and 2015, respectively, discounted at the rate of 4% (the borrowing rate See Note 8) and reserve for uncollectible pledge receivables of $9,139 at December 31, 2016 and 2015.

Note 5: Land, Building, and Equipment

Land, building, and equipment as of December 31 are as follows:

	December 31	
	2016	2015
Land	$ 250,000	$ 250,000
Building and improvements	3,345,135	3,345,135
Equipment	1,470,547	1,680,362
	5,065,682	5,275,497
Accumulated depreciation	(1,345,291)	(1,432,675)
	$ 3,720,391	$ 3,842,822

Depreciation expense was $180,348 and $178,289 for the years ended December 31, 2016 and 2015, respectively.

Note 6: Temporarily Restricted Assets

Permanently restricted net assets represent the accumulation of gifts to be invested in perpetuity. The income earned on these investments can be spent on the programs for which the donor intended.

Temporarily restricted net assets consist of the following at December 31:

	December 31 2016	December 31 2015
Income from permanently restricted endowment funds	$ 402,423	$ 279,034
Unspent contributions for future periods	2,999,093	2,208,409
Unspent capital campaign contributions for future periods	150,266	335,579
	$3,551,782	$ 2,823,022

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	Years ended December 31 2016	Years ended December 31 2015
Capital campaign	$ 411,528	$ 166,013
Program support	805,704	726,335
	$1,217,232	$ 892,348

Note 7: Endowment Fund Net Assets

The Foundation's endowment consists of approximately nine individual funds established for a variety of purposes. The endowment includes both donor restricted funds and funds designated by the Board of Directors functioning as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring (absent specific donor restrictions) the Foundation to consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds;
- The purposes of the donor-restricted endowment funds;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation; and
- Investment policies of the Foundation.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment.

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 Foundation in a manner consistent with the standards of prudence prescribed by SPMIFA.

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets, that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distributions with acceptable levels of risk. Endowment assets are invested in a diversified asset mix of investments with both equity and fixed income strategies, which are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution based on the spending policies below, while growing the funds, if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Foundation has adopted a spending policy allowing appropriation for distribution of an amount based on four percent of the average previous three years' ending endowment value.

Endowment net asset composition by type of fund was as follows:

December 31, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	$ (110,031)	$ 402,422	$ 6,104,070	$ 6,396,461
Board-designated endowment funds	2,525,788	-	-	2,525,788
Total funds	$ 2,415,757	$ 402,422	$ 6,104,070	$ 8,922,249
December 31, 2015				
Donor-restricted endowment funds	$ (189,222)	$ 279,034	$ 6,104,070	$ 6,193,882
Board-designated endowment funds	2,350,870	-	-	2,350,870
Total funds	$ 2,161,648	$ 279,034	$ 6,104,070	$ 8,544,752

Retina Foundation of the Southwest

Notes to Financial Statements

Endowment net asset activity by fund was as follows:

	As of December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$2,161,648	$ 279,034	$6,104,070	$8,544,752
Investment income and realized gain	52,872	107,852	-	160,724
Unrealized gain (loss)	213,808	270,646	-	484,454
Contributions	25,000	-	-	25,000
Amounts appropriated for expenditure	(37,571)	(255,110)	-	(292,681)
Total funds	$2,415,757	$ 402,422	$6,104,070	$8,922,249

	As of December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$2,367,791	$ 498,755	$6,104,070	$8,970,616
Investment income and realized gain	77,078	206,276	-	283,354
Unrealized gain (loss)	(261,889)	(180,804)	-	(442,693)
Amounts appropriated for expenditure	(21,332)	(245,193)	-	(266,525)
Total funds	$2,161,648	$ 279,034	$6,104,070	$8,544,752

The Foundation maintained the following permanently restricted endowment funds:

	As of December 31, 2016			
	Permenantly Restricted	Included in Unrestricted	Temporarily Restricted	Total Assets
Crystal Charity Endowment Fund	$ 718,500	$ -	$ 51,488	$ 769,988
Harrington Endowment Fund	2,561,212	(106,993)	-	2,454,219
Proctor Endowment Fund	105,200	-	3,992	109,192
Silverthorne Endowment Fund	169,158	-	16,421	185,579
Stager Lecture Endowment Fund	50,000	(3,038)	-	46,962
T. Boone Pickens Macular Degeneration Endowment Fund	2,500,000	-	330,521	2,830,521
Total funds	$ 6,104,070	$ (110,031)	$ 402,422	$ 6,396,461

	As of December 31, 2015			
	Permenantly Restricted	Included in Unrestricted	Temporarily Restricted	Total Assets
Crystal Charity Endowment Fund	$ 718,500	$ -	$ 27,131	$ 745,631
Harrington Endowment Fund	2,561,212	(184,662)	-	2,376,550
Proctor Endowment Fund	105,200	-	536	105,736
Silverthorne Endowment Fund	169,158	-	10,424	179,582
Stager Lecture Endowment Fund	50,000	(4,560)	-	45,440
T. Boone Pickens Macular Degeneration Endowment Fund	2,500,000	-	240,943	2,740,943
Total funds	$ 6,104,070	$ (189,222)	$ 279,034	$ 6,193,882

Note 8: Mortgage Payable

In May 2012, the Foundation and an affiliate of Texas Retina Associates (TRA) formed a limited liability corporation (Retina Central, LLC) as equal members to jointly purchase land and building. To finance the acquisition of the land, building and subsequent building improvements, Retina Central, LLC secured a mortgage obligation (including a first lien deed of trust and a promissory note) from Amegy Bank National Association (Amegy) through a loan agreement dated May 18, 2012 that was amended effective April 24, 2014.

Concurrent with the purchase of the land and building, Retina Central, LLC executed a Condominium Declaration (the Declaration) for Retina Central Condominium by which the land and building purchased was subjected to a condominium regime. The Declaration provided for the division of the land and building into two equal units plus shared common areas and the Foundation and the TRA affiliate each received a general warranty deed for their respective units from Retina Central, LLC and each executed a second lien deed of trust with security agreement for their respective unit's ownership with Amegy for their portion of the mortgage obligation. As a result of the foregoing, the Foundation and the TRA affiliate record their respective condominium unit ownership on their respective entity's accounting records along with their respective portions of the mortgage obligation from Amegy.

With the establishment of the condominium regime, a Texas not-for-profit corporation was formed, Retina Central Condominium Association (RCCA), with the Foundation and the TRA affiliate each as equal members through ownership of their respective units. The Declaration and RCCA's bylaws require the units to be used or occupied solely for commercial or medical office purposes and related uses, including use as a medical clinic, research and/or a surgery center.

RCCA joined with Retina Central, LLC as a named borrower on the mortgage obligation. Per the loan agreement, the Foundation makes payments on their portion of the mortgage obligation directly to Amegy from capital campaign contributions received (which amounts are more specifically defined in the agreement). In 2016 and 2015, the Foundation made payments of capital campaign amounts received directly to Amegy of $405,413 and $165,775, respectively, thereby reducing the Foundation's portion of the mortgage obligation and in 2017, the Foundation made payments of $151,021 through the date of the report. In addition, monthly required principal and interest payments on the mortgage are paid by the Foundation to RCCA who makes the required monthly payment to Amegy with combined funds received from the Foundation and the TRA affiliate.

RCCA assesses monthly fees for the repair and maintenance and general upkeep of the common areas of the land and building, umbrella insurance, and other expenses defined in the RCCA's bylaws which amounted to $150,224 and $143,762 in 2016 and 2015, respectively. As of December 31, 2016 and 2015, the Foundation had a receivable from RCCA for $77,608 and $67,065, respectively that is included in accounts and grant receivables in the Statements of Financial Position, representing excess assessments and debt service amounts to be returned to the Foundation in accordance with the Declaration and RCCA's bylaws.

Following are the terms of the mortgage obligation as amended April 24, 2014. Payments began May 31, 2013:

Principal outstanding 12/31/16	$ 609,971
Interest rate as of 12/31/16	4.0%
Amortization	20 years
Maturity date	February 2020

In March, 2015, the Foundation's Board of Directors approved and Amegy authorized the reduction of the interest rate to 4.0% on the remaining balance of the mortgage obligation.

A schedule of minimum required principal payments is as follows for years ending December 31:

Year ending December 31	
2017	$ 70,916
2018	70,916
2019	70,916
2020	397,223
Total	$ 609,971

Note 9: In-Kind Donations

The Foundation records the value of donated goods and services when there is an objective basis available to measure their value. Donated materials are reflected as contributions in the accompanying statements at their estimated fair value at the date of receipt. Donated professional services are recorded at the fair value of fees for similar services. For the years ended December 31, 2016 and 2015, there were $15,358 and $20,360, respectively, in donated event expenses and professional services recognized as revenue and expense.

Note 10: Retirement Plan

Effective in 1989, the Foundation established a defined contribution plan (the Plan) for all full-time employees of the Foundation with one or more years of service. The Plan provides for employer contributions of amounts determined by the Board of Directors. In 2016 and 2015, the Board of Directors approved $101,654 and $108,302 in retirement plan contributions, respectively.

Effective February 15, 2015, the Plan was amended. Employees hired after the effective date are eligible to participate in the plan upon the completion of three months of service. The amended Plan provides automatic employee deferrals of 3% of an employee's compensation subject to the annual dollar limit set by law (unless an employee specifically elects a different deferral amount) and provides for a safe harbor nonelective employer contribution, as defined, of 3% of an employee's compensation. Both employee deferrals and the employer nonelective contribution are 100 % vested at all times. In addition, the Plan provides for a discretionary employer match and profit sharing contribution to be determined annually. Any employer match and/or profit sharing contributions will be subject to a vesting schedule of 20% a year beginning in year two up to 100% in year six.

Note 11: Commitments and Contingencies

In the normal course of business, the Foundation may become party to various claims, litigation and assessments. Management is unaware of any such matters that would have a material impact on the financial statements in the event of an unfavorable outcome.

The Foundation guarantees 50% of a note payable to Amegy Bank from Retina Central, LLC and RCCA in the amount of $54,000 and $90,000 as of December 31, 2016 and 2015, respectively, that matures June 12, 2018 plus any accrued interest (at 2.75%), and pledges all real and personal property that the Foundation owns, or has an interest in, to secure the note with Retina Central, LLC and RCCA. The proceeds of the loan were used to finish out the remaining portion of the building purchased in 2013 by the TRA affiliate completing the purchased building refurbishment project.

Note 12: Concentrations of Risk

The Foundation operates entirely within the Dallas, Texas metropolitan area. Therefore, results of operations are subject to the economic conditions of the area. A significant portion of support and revenue is received from the Department of Health and Human Services (DHHS) and from contributions. For the years ended December 31, 2016 and 2015, 21% and 19%, respectively, of the total of government grants, contributions and other grants and special events revenue was received from the DHHS and 27% and 20%, respectively, of accounts and grants receivable and pledges receivable were outstanding from the DHHS as of December 31, 2016 and 2015. Of the contributions and non DHHS grants and special events revenue, 27% was provided by one foundation in 2016 and 29% in 2015 and 24% and 16%, respectively of accounts and grants receivable and pledges receivable was from one corporate grantor as of December 31, 2016 and 2015. Continued funding from these sources at current levels is dependent upon various factors. Such factors include economic conditions, compliance with grant provisions, continued government approval, new legislation, donor satisfaction and public perception of mission effectiveness and relative importance.

The Foundation holds cash in various financial institutions which are insured by the FDIC. As of December 31, 2016 and 2015, cash balances exceed FDIC limits by approximately $3,300,000 and $1,600,000, respectively. The Foundation deposits its cash with highly quality financial institutions, and management believes the Foundation is not exposed to significant credit risk on those amounts.

The Foundation's investments are subject to various risks, such as interest rate risk, credit and overall market volatility risks. Further, because of the significance of the investments to the Foundation's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

Note 13: Related Party Transactions

In addition to the transactions discussed in NOTE 8 and NOTE 11, the Foundation contracted with TRA to provide research services and incurred $59,930 and $77,505 in expenses in 2016 and 2015, respectively and owed TRA $14,060 and $54,905 for these services as of December 31, 2016 and 2015, respectively. The Foundation incurred $35,333 and $31,026 in expenses in 2016 and 2015, respectively, for a portion of a TRA lab researcher's salary and benefits and owed TRA $2,822 as of December 31, 2016. In addition, the Foundation reduced salary expense for amounts billed to TRA in the amount of $0 and $87,750 in 2016 and 2015, respectively, for the portion of a physician's salary and benefits that TRA utilized. TRA also made a contribution of $24,000 to the Foundation in 2016 and in 2015.

Note 14: Communities Foundation of Texas Grant Agreement

On January 8, 2015, the Foundation entered into a grant agreement and received $2,500,000 on January 20, 2015 from the W.W. Caruth, Jr. Foundation at Communities Foundation of Texas to establish and support operations of the Retina Foundation of the Southwest - Southern Methodist University Clinical Center of Innovation for Age-Related Macular Degeneration (the Center) for a period of ten years. The Foundation is to use $1,500,000 to establish and support operation of the Center at the Foundation's offices for salaries and benefits of clinicians and researchers, fundraising costs for the Center, costs of scientific research equipment, clinical and laboratory supplies, Center related administrative office expenses and other fees and costs and expenses related to the Center's programs and projects. The remaining $1,000,000, net of $100,000 to be used for equipment purchased and maintained by the Foundation, was re-granted to Southern Methodist University (SMU) pursuant to a Master Cooperative Research Agreement between the Foundation and SMU and will be designated for the SMU Bobby B. Lyle School of Engineering to support the Center's projects in the Innovation Gymnasium of the Caruth Institute for Engineering Education in furtherance of the purpose of the grant by SMU. In addition, the Foundation agreed to raise an additional $2,500,000 for the Center from other sources over the first three year start-up phase of the Center's operations. An amount of $250,000 from the original $2,500,000 grant is being used by the Foundation to fund the salary of a development officer for the specific purpose of raising additional moneys for the Center over the first three year start-up of the Center's operations per the grant agreement. After the three year start-up phase, revenue from patent licensing, start-ups, and strategic corporate partnerships relating to the Center is intended to be used to sustain the Center's research during the remaining seven years of the grant period.

Note 15: Nonprimary Beneficiary Holder of a Variable Interest in a Variable Interest Entity

As noted in Note 8, the Foundation is a 50% owner of Retina Central, LLC, and 50% owner of Retina Central Condominium Association, Inc. (RCCA). The sole manager of Retina Central LLC is the CEO of the other 50% owner, an affiliate of Texas Retina Associates (TRA). The Foundation holds a variable interest in a variable interest entity (Retina Central LLC), but is not the primary beneficiary.

RCCA and Retina Central LLC have historically accounted for the Foundation and the TRA affiliate based on the Foundation’s and the TRA affiliate’s activity in the two entities (like a partnership) versus a direct 50% split in the income and expenses.

Therefore the carrying amounts and classification of the assets and liabilities in the Foundation's statement of financial position that relate to the Foundation's variable interest in Retina Central LLC represent the Foundation's proportional share, less payments made by the Foundation on their portion of the debt (including required payments and capital campaign payments as noted in Note 8). In addition to the building and debt noted above, there are some income and expenses in Retina Central that are accounted for by the Foundation as equity investments in Retina Central LLC of approximately $78,000, and are included in Accounts and Grants Receivable on the statement of financial position.

The Foundation's maximum exposure to loss as a result of its involvement with Retina Central LLC is 50% of the overall outstanding debt. The overall carrying amount and maximum exposure is as follows:

	Year ended December 31,	
	2016	2015
Carrying amount:		
Land, building	$ 3,595,135	$ 3,595,135
Mortgage payable	609,971	1,086,300

	Year ended December 31,	
	2016	2015
Maxium exposure:		
50% of entire Land, Building	$ 2,691,449	$ 2,691,449
50% of entire mortgage payable	1,205,621	1,499,209