

Retina Foundation of the Southwest

Financial Report

December 31, 2019

CONTENTS

Page

Independent Auditor's Report.....	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Cash Flows.....	6
Statements of Functional Expenses	7
Notes to Financial Statements.....	8
Supplementary Information	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with the Uniform Guidance	28
Schedule of Findings and Questioned Costs.....	30
Schedule of Expenditures of Federal Awards.....	32
Notes to Schedule of Expenditures of Federal Awards	33



Independent Auditor's Report

To the 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, 2019 and 2018, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

The Board of Directors of
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 the Foundation as of December 31, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is 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 audit 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2020 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 19, 2020

Retina Foundation of the Southwest

Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 6,451,375	\$ 5,337,332
Capital campaign cash and cash equivalents	-	30,003
Investments	10,097,769	8,845,554
Accounts and grants receivable	835,307	568,601
Pledges receivable, net	12,500	55,100
Prepaid expenses	129,825	110,043
Land, building, and equipment, net	<u>3,663,444</u>	<u>3,773,535</u>
TOTAL ASSETS	<u>\$ 21,190,220</u>	<u>\$ 18,720,168</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 145,245	\$ 137,188
Retirement plan accrual	46,001	110,114
Deferred revenues	538,965	435,296
Mortgage note payable	<u>-</u>	<u>34,994</u>
TOTAL LIABILITIES	730,211	717,592
NET ASSETS		
Without donor restrictions:		
Unrestricted net assets	6,167,409	5,270,327
Unrestricted board designated net assets	<u>3,019,776</u>	<u>2,383,655</u>
Total net assets without donor restrictions	9,187,185	7,653,982
With donor restrictions	<u>11,272,824</u>	<u>10,348,594</u>
TOTAL NET ASSETS	<u>20,460,009</u>	<u>18,002,576</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,190,220</u>	<u>\$ 18,720,168</u>

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

Retina Foundation of the Southwest

Statements of Activities Years Ended December 31, 2019 and 2018

	Year ended December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Special events	\$ 567,712	\$ -	\$ 567,712
Less: cost of direct benefits to donors	(41,133)	-	(41,133)
Net special events revenues	526,579	-	526,579
Government grants	1,181,436	-	1,181,436
Contributions and other grants	1,929,276	1,570,042	3,499,318
Investment income and realized gain on investments	180,649	267,818	448,467
Unrealized gain (loss) on investments	639,587	614,104	1,253,691
Other income	65,771	-	65,771
Net assets released from restriction	1,527,734	(1,527,734)	-
TOTAL SUPPORT AND REVENUES	6,051,032	924,230	6,975,262
EXPENSES			
Program	3,516,566	-	3,516,566
Management and general	611,798	-	611,798
Development	389,465	-	389,465
TOTAL EXPENSES	4,517,829	-	4,517,829
CHANGES IN NET ASSETS	1,533,203	924,230	2,457,433
NET ASSETS AT BEGINNING OF YEAR	7,653,982	10,348,594	18,002,576
NET ASSETS AT END OF YEAR	\$ 9,187,185	\$ 11,272,824	\$ 20,460,009

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

Year ended December 31, 2018

Without Donor Restrictions	With Donor Restrictions	Total
\$ 694,923	\$ -	\$ 694,923
(225,752)	-	(225,752)
469,171	-	469,171
873,600	-	873,600
1,477,149	1,842,155	3,319,304
172,243	381,617	553,860
(464,933)	(680,080)	(1,145,013)
59,825	-	59,825
1,943,518	(1,943,518)	-
4,530,573	(399,826)	4,130,747
3,297,465	-	3,297,465
592,727	-	592,727
406,025	-	406,025
4,296,217	-	4,296,217
234,356	(399,826)	(165,470)
7,419,626	10,748,420	18,168,046
<u>\$ 7,653,982</u>	<u>\$ 10,348,594</u>	<u>\$ 18,002,576</u>

Retina Foundation of the Southwest

Statements of Cash Flows Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,457,433	\$ (165,470)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-operating capital campaign receipts and pledges receivable	(22,600)	(199,125)
Depreciation	204,465	192,927
Realized gain on investments	(61,811)	(275,725)
Unrealized (gain) loss on investments	(1,253,691)	1,145,013
Increase in accounts and grants receivable	(266,706)	(81,700)
Increase in prepaid expenses	(19,782)	(6,709)
Increase (decrease) in accounts payable and accrued expenses and retirement plan accrual	(56,056)	8,213
Increase in deferred revenue	103,669	30,896
Net cash provided by operating activities	1,084,921	648,320
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(695,605)	(1,578,693)
Redemption/sale of investments	758,892	1,680,168
Increase in non-operating capital campaign cash receipts	30,003	1,957
Increase (decrease) in pledges receivable	42,600	(50,100)
Purchases of land, building, and equipment	(94,374)	(350,832)
Net cash provided by (used in) investing activities	41,516	(297,500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Non-operating capital campaign receipts and pledges receivable	22,600	199,125
Payments on mortgage note payable	(34,994)	(256,040)
Net cash used in financing activities	(12,394)	(56,915)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,114,043	293,905
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,337,332	5,043,427
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 6,451,375	\$ 5,337,332
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 330	\$ 7,320

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

Retina Foundation of the Southwest

Statements of Functional Expenses Years Ended December 31, 2019 and 2018

December 31, 2019	Program	Management and General	Development	Total
Compensation and benefits	\$ 2,411,271	\$ 454,007	\$ 231,662	\$ 3,096,940
Lab, patient and other program expenses	226,559	-	-	226,559
General insurance	27,051	9,103	1,982	38,136
General office and maintenance expense	151,477	27,959	31,193	210,629
Interest expense	251	67	13	331
Other expenses	144,273	27,166	29,158	200,597
Professional services	69,180	40,680	1,435	111,295
Common area maintenance expenses	107,994	28,166	5,344	141,504
Special events	-	-	81,221	81,221
Sub-contract agreements	154,277	-	-	154,277
Travel and conference	46,791	553	4,531	51,875
Total before depreciation expense	3,339,124	587,701	386,539	4,313,364
Depreciation expense	177,442	24,097	2,926	204,465
TOTAL EXPENSES	\$ 3,516,566	\$ 611,798	\$ 389,465	\$ 4,517,829

December 31, 2018	Program	Management and General	Development	Total
Compensation and benefits	\$ 2,171,570	\$ 415,557	\$ 256,874	\$ 2,844,001
Lab, patient and other program expenses	277,096	-	-	277,096
General insurance	25,056	10,350	1,855	37,261
General office and maintenance expense	170,796	45,884	25,004	241,684
Interest expense	5,008	2,104	208	7,320
Other expenses	175,248	18,000	27,040	220,288
Professional services	57,822	34,159	999	92,980
Common area maintenance expenses	99,717	41,898	4,136	145,751
Special events	-	-	82,382	82,382
Sub-contract agreements	89,350	-	-	89,350
Travel and conference	58,931	1,221	1,525	61,677
Total before depreciation expense and bad debt expense	3,130,594	569,173	400,023	4,099,790
Depreciation expense	166,871	23,554	2,502	192,927
Bad debt expense	-	-	3,500	3,500
TOTAL EXPENSES	\$ 3,297,465	\$ 592,727	\$ 406,025	\$ 4,296,217

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

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

Note 1. Nature and Purpose of the Foundation

Retina Foundation of the Southwest (the Foundation) was organized in 1975 as a Texas non-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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. 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:

Net Assets Without Donor Restrictions – 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 as restricted for research expenditures or for general operating expenses as approved by the Board of Directors (see **Investments**).

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

Net Assets With Donor Restrictions – 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, 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 net assets with donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions.

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 net assets with donor restrictions until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use.

Net assets with donor restrictions also 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 net assets without donor restrictions in the Statements of Activities unless the use of the related resources is subject to donor restrictions. Contributions received with time or purpose 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 net assets without donor restrictions. Net losses on endowment investments reduce net assets with donor restrictions to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in net assets without donor restrictions. 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 net assets without donor restrictions.

Cash Equivalents

At December 31, 2019 and 2018, 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.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

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, 2019 and 2018.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 without restriction. Support that is not restricted by the donor is reported as an increase in net assets without donor restrictions 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.

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, 2019.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

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 net assets without donor restrictions for board-designated endowments and net assets with donor restrictions for all other endowments. Realized and unrealized gains and losses on investments are classified and recorded as increases or decreases in net assets with or without donor restrictions. 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 revenue when 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 net assets with donor restrictions, 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 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 from 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.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

Functional Allocation of Expenses

The costs of providing the Foundation's programs and supporting services are presented on the functional basis in the Statements of Activities. The Statements of Functional Expenses present 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 based on square footage and employees per department.

Management and general 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, 2019 and 2018, 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 2016.

Subsequent Events

Management has reviewed events occurring subsequent to December 31, 2019, through the issuance date of the financial statements. During this period, there were no material recognizable subsequent events, except as follows:

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

COVID-19

The extent of the operational and financial impact the COVID-19 pandemic may have on the Foundation has yet to be determined and is dependent on its duration and spread, any related operational restrictions and the overall economy. Currently, the Foundation has slowly begun reopening and seeing patients who are willing to be seen and are participating in clinical trials after shutting down for about 6 weeks. The Foundation is unable to accurately predict how COVID-19 will affect the results of its operations because the virus's severity and the duration of the pandemic are uncertain. However, while it is premature to accurately predict its full impact, we have already seen a significant decrease in contributions and clinical trial revenue for the quarter ending March 31, 2020 with potential continuing, adverse impacts beyond March 31, 2020. In April 2020, the Foundation has received funding under the Cares Act through the Payment Protection Plan (PPP).

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. This standard had no material effect on the financial statements.

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. This standard had no material effect on the 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, 2021. 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.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This new guidance clarifies whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional. The update will take effect for the Foundation for fiscal years beginning after December 15, 2018. This standard had no material effect on the financial statements.

Note 3. Investments

Investments held by the Foundation at December 31, 2019 and 2018 are as follows:

	2019	2018
Mutual funds	\$ 8,970,885	\$ 8,185,144
Exchange traded funds	1,126,884	660,410
Total investments	<u>\$ 10,097,769</u>	<u>\$ 8,845,554</u>

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.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

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, 2019 and 2018:

	December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds	\$ 8,970,885	\$ -	\$ -	\$ 8,970,885
Exchange traded funds	1,126,884	-	-	1,126,884
	\$ 10,097,769	\$ -	\$ -	\$ 10,097,769
	December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds	\$ 8,185,144	\$ -	\$ -	\$ 8,185,144
Exchange traded funds	660,410	-	-	660,410
	\$ 8,845,554	\$ -	\$ -	\$ 8,845,554

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

The Foundation's investment income for the years ended December 31, 2019 and 2018 was as follows:

	December 31,	
	2019	2018
Investment income (net)	\$ 386,656	\$ 278,135
Realized gain (loss)	61,811	275,725
Unrealized gain (loss)	1,253,691	(1,145,013)
Total investment return	<u>\$ 1,702,158</u>	<u>\$ (591,153)</u>

Note 4. Pledges Receivable

Pledges receivable represent unconditional promises to give. Amounts due in less than one year of \$12,500 and \$42,600 as of December 31, 2019 and 2018, respectively, are stated at net realizable value. Amounts due in one to three years are \$0 and \$12,500 as of December 31, 2019 and 2018, respectively, are stated at fair value and net of reserve for uncollectible pledge receivables of \$0, at December 31, 2019 and 2018.

Note 5. Land, Building, and Equipment

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

	December 31,	
	2019	2018
Land	\$ 250,000	\$ 250,000
Building and improvements	3,395,108	3,395,108
Equipment	1,755,733	1,778,768
	5,400,841	5,423,876
Accumulated depreciation	<u>(1,737,397)</u>	<u>(1,650,341)</u>
	<u>\$ 3,663,444</u>	<u>\$ 3,773,535</u>

Depreciation expense was \$204,465 and \$192,927 for the years ended December 31, 2019 and 2018, respectively.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions include the accumulation of gifts to be invested in perpetuity that are permanently restricted by donors. The income earned on these investments can be spent on the programs for which the donor intended. In addition, net assets with restrictions include contributions with time or purpose restrictions.

Net assets with donor restrictions consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Income from permanently restricted endowment funds	\$ 973,923	\$ 357,829
Unspent contributions for future periods	4,182,331	3,821,592
Unspent capital campaign contributions for future periods	12,500	65,103
Permanently restricted endowment funds	<u>6,104,070</u>	<u>6,104,070</u>
	<u>\$ 11,272,824</u>	<u>\$ 10,348,594</u>

The sources of net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Capital campaign	\$ 52,603	\$ 204,582
Program support	<u>1,475,131</u>	<u>1,738,936</u>
	<u>\$ 1,527,734</u>	<u>\$ 1,943,518</u>

Note 7. Endowment Fund Net Assets

The Foundation's endowment consists of 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.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

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 net assets with donor restrictions 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 permanently restricted is also classified as net assets with donor restrictions 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.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

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

	Without Donor Restriction	With Donor Restrictions		Total Endowment Net Assets
		Purpose Stipulation	Permanent Endowment	
<u>December 31, 2019</u>				
Donor-restricted endowment funds	\$ -	\$ 973,923	\$ 6,104,070	\$ 7,077,993
Board-designated endowment funds	3,019,776	-	-	3,019,776
Total funds	\$ 3,019,776	\$ 973,923	\$ 6,104,070	\$ 10,097,769
<u>December 31, 2018</u>				
Donor-restricted endowment funds	\$ -	\$ 357,829	\$ 6,104,070	\$ 6,461,899
Board-designated endowment funds	2,383,655	-	-	2,383,655
Total funds	\$ 2,383,655	\$ 357,829	\$ 6,104,070	\$ 8,845,554

Endowment net asset activity by fund was as follows:

	Without Donor Restriction	With Donor Restrictions		Total
		Purpose Stipulation	Permanent Endowment	
<u>December 31, 2019</u>				
Beginning balance	\$ 2,383,655	\$ 357,829	\$ 6,104,070	\$ 8,845,554
Investment income and realized gain	107,706	267,818	-	375,524
Unrealized gain	632,477	614,104	-	1,246,581
Amounts appropriated for expenditure	(104,062)	(265,828)	-	(369,890)
Total funds	\$ 3,019,776	\$ 973,923	\$ 6,104,070	\$ 10,097,769
<u>December 31, 2018</u>				
Beginning balance	\$ 2,795,747	\$ 916,500	\$ 6,104,070	\$ 9,816,317
Investment income and realized gain	155,186	381,617	-	536,803
Unrealized loss	(468,409)	(680,080)	-	(1,148,489)
Amounts appropriated for expenditure	(98,869)	(260,208)	-	(359,077)
Total funds	\$ 2,383,655	\$ 357,829	\$ 6,104,070	\$ 8,845,554

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

The Foundation maintained the following endowment funds:

December 31, 2019	Permanent Endowment	Included in Net Assets With Donor Restrictions	Total Net Assets
Crystal Charity Endowment Fund	\$ 718,500	\$ 149,956	\$ 868,456
Harrington Endowment Fund	2,561,212	71,744	2,632,956
Proctor Endowment Fund	105,200	17,961	123,161
Silverthorne Endowment Fund	169,158	40,252	209,410
Stager Lecture Endowment Fund	50,000	1,483	51,483
T. Boone Pickens Macular Degeneration Endowment Fund	2,500,000	692,527	3,192,527
Total funds	<u>\$ 6,104,070</u>	<u>\$ 973,923</u>	<u>\$ 7,077,993</u>

December 31, 2018	Permanent Endowment	Included in Net Assets With Donor Restrictions	Total Net Assets
Crystal Charity Endowment Fund	\$ 718,500	\$ 42,651	\$ 761,151
Harrington Endowment Fund	2,561,212	-	2,561,212
Proctor Endowment Fund	105,200	2,743	107,943
Silverthorne Endowment Fund	169,158	14,374	183,532
Stager Lecture Endowment Fund	50,000	-	50,000
T. Boone Pickens Macular Degeneration Endowment Fund	2,500,000	298,061	2,798,061
Total funds	<u>\$ 6,104,070</u>	<u>\$ 357,829</u>	<u>\$ 6,461,899</u>

Note 8. Liquidity

The Foundation has \$1.8 million of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure. This consists of cash of \$1.7 million (cash and cash equivalents of \$6.5 million plus accounts receivable and pledges of \$0.8 million less net restricted cash and other assets of \$5.6 million) and short-term investments of \$0.1 million. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The pledges receivable are subject to implied time restrictions but are expected to be collected within one year. The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which are, on average, approximately \$1.3 million.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Foundation may invest cash in excess of daily requirements in various short-term investments, including money market and short-term treasury instruments.

Note 9. 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 2019 and 2018, the Foundation made payments of capital campaign amounts received directly to Amegy of \$16,800 and \$185,125, respectively, thereby reducing the Foundation's portion of the mortgage obligation. 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. The Foundation paid off the Mortgage Payable balance on April 29, 2019. There was no remaining balance as of December 31, 2019.

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 \$143,690 and \$135,705 in 2019 and 2018, respectively.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

As of December 31, 2019 and 2018, the Foundation had a receivable for \$122,404 and a payable of \$3,055, respectively, to/from RCCA 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 or paid back to RCCA in accordance with the Declaration and RCCA's bylaws.

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 2019 and 2018, the Board of Directors approved \$112,077 and \$110,124 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.

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.

Retina Foundation of the Southwest

Notes to Financial Statements Year Ended December 31, 2019

For the years ended December 31, 2019 and 2018, 23% and 18%, respectively, of the total of government grants, contributions and other grants and special events revenue was received from the DHHS and 10% and 24%, respectively, of accounts and grants receivable and pledges receivable were outstanding from the DHHS as of December 31, 2019 and 2018. Of the contributions and non-DHHS grants and special events revenue, 12% and 13% was provided by one foundation in 2019 and 2018, respectively; and 14% and 22%, respectively of accounts and grants receivable and pledges receivable was from one foundation/corporate grantor as of December 31, 2019 and 2018. 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, 2019 and 2018, cash balances exceed FDIC limits by approximately \$1,000,000 and \$1,100,000, 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 9, the Foundation contracted with TRA to provide research services and incurred \$136,843 and \$88,827 in expenses in 2019 and 2018, respectively and owed TRA net \$21,550 and \$6,250 for these services as of December 31, 2019 and 2018, respectively. TRA also made \$24,000 contributions to the Foundation in both 2019 and 2018.

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.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

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 six years of the grant period.

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

As noted in Note 9, 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 9). 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 \$122,404 and \$(3,055) at December 31, 2019 and 2018, respectively, and are included in Accounts and Grants Receivable on the statement of financial position.

Retina Foundation of the Southwest

Notes to Financial Statements
Year Ended December 31, 2019

As a result of the above, 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 amounts recorded in the statements of financial position and the Foundation's maximum exposure is as follows:

	Year ended December 31,	
	2019	2018
Carrying amount:		
Land, building	\$ 3,645,108	\$ 3,645,108
Mortgage payable	-	34,994
	Year ended December 31,	
	2019	2018
Maximum exposure:		
50% of entire land, building	\$ 2,660,884	\$ 2,753,720
50% of entire mortgage payable	734,364	807,284



**Independent Auditor’s Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of
Retina Foundation of the Southwest

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Retina Foundation of the Southwest (the Foundation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 19, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board of Directors of
Retina Foundation of the Southwest

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 19, 2020

**Independent Auditor’s Report on Compliance for Each Major Federal Program
and on Internal Control Over Compliance in Accordance with the Uniform Guidance**

To the Board of Directors of
Retina Foundation of the Southwest

Report on Compliance for Each Major Federal Program

We have audited Retina Foundation of the Southwest’s (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation’s major federal programs for the year ended December 31, 2019. The Foundation’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Foundation’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

The Board of Directors of
Retina Foundation of the Southwest

Report on Internal Control over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
May 19, 2020

Retina Foundation of the Southwest
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2019

Section 1. Summary of Auditor's Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	___X___ No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	___X___ None Reported
Noncompliance material to financial statements noted?	_____ Yes	___X___ No

Federal Awards

An unmodified opinion was issued on compliance for major programs.

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	___X___ No
Significant deficiencies identified that are not considered to be material weakness(es)?	_____ Yes	___X___ None Reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	___X___ No

Identification of major programs:

<u>CFDA Number</u>	<u>Program Title</u>
93.867	Research and Development Cluster (Vision Research)

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	_____ Yes	___X___ No
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Retina Foundation of the Southwest
Schedule of Findings and Questioned Costs – Continued
Year Ended December 31, 2019

Section 2. Financial Statement Findings

None

Section 3. Federal Award Findings and Questioned Costs

None

Section 4. Schedule of Prior Year Findings and Questioned Costs

None

Retina Foundation of the Southwest
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Research and Development Cluster			
U.S. Department of Health and Human Services			
National Institutes of Health Direct			
programs from:			
National Eye Institute	93.867		\$ 665,667
National Institutes of Health pass-through			
programs from:			
MAYO Clinic	93.867	1R01EY024333-05	140,549
Columbia University New York Morningside	93.867	5R01EY009076-25A1	355,220
Rebsican Inc.	93.867	5R44EY027633-03	20,000
Total U.S. Departmental of Health and Human Services			<u>1,181,436</u>
Total Research and Development Cluster			<u>1,181,436</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,181,436</u></u>

The accompanying notes are an integral part of this schedule.

Retina Foundation of the Southwest
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Foundation under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foundation.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Foundation has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.