

Seva Foundation

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2017
(with summarized financial
information for June 30, 2016)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Seva Foundation

We have audited the accompanying financial statements of Seva Foundation, a nonprofit organization (the "Foundation"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' 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. 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 auditors' 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 Foundation'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 Foundation'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.

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seva Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 23, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

DZH Phillips LLP

San Francisco, California
October 17, 2017

Seva Foundation

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(with summarized financial information for June 30, 2016)

| | 2017 | | | Total | 2016 |
|---|----------------------|------------------------|------------------------|----------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 4,889,952 | \$ 1,763,146 | \$ - | \$ 6,653,098 | \$ 3,120,740 |
| Cash advances | 68,385 | - | - | 68,385 | 22,157 |
| Inventory | 6,100 | - | - | 6,100 | 7,823 |
| Prepaid expenses | 68,363 | - | - | 68,363 | 48,168 |
| Receivables - net: | | | | | |
| Accounts | 137,747 | - | - | 137,747 | - |
| LLC distributions | 120,235 | - | - | 120,235 | - |
| Grants | 13,800 | - | - | 13,800 | 30,500 |
| Pledges | - | 1,787,864 | 1,000,000 | 2,787,864 | 1,160,000 |
| Grant advances | 228,120 | - | - | 228,120 | 158,867 |
| Investments | 2,004,348 | 6,269 | 23,000 | 2,033,617 | 952,533 |
| Interest in LLC | 25,340,000 | - | - | 25,340,000 | - |
| Property and equipment - net | 719,898 | - | - | 719,898 | 29,571 |
| Deposits | 2,800 | - | - | 2,800 | 2,800 |
| Total assets | \$ 33,599,748 | \$ 3,557,279 | \$ 1,023,000 | \$ 38,180,027 | \$ 5,533,159 |
| LIABILITIES AND NET ASSETS | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued expenses | \$ 18,797 | \$ - | \$ - | \$ 18,797 | \$ 36,286 |
| Wages payable | 258,327 | - | - | 258,327 | 220,332 |
| Grants payable | 249,164 | - | - | 249,164 | 270,019 |
| Reimbursements | 70,570 | - | - | 70,570 | 3,589 |
| Deferred revenue | 224,168 | - | - | 224,168 | 799,356 |
| Total liabilities | 821,026 | - | - | 821,026 | 1,329,582 |
| Net assets: | | | | | |
| Unrestricted | | | | | |
| Undesignated | 30,774,374 | - | - | 30,774,374 | 157,820 |
| Board designated reserves | 2,004,348 | - | - | 2,004,348 | 925,269 |
| Temporarily restricted | - | 3,557,279 | - | 3,557,279 | 3,097,488 |
| Permanently restricted | - | - | 1,023,000 | 1,023,000 | 23,000 |
| Total net assets | 32,778,722 | 3,557,279 | 1,023,000 | 37,359,001 | 4,203,577 |
| Total liabilities and net assets | \$ 33,599,748 | \$ 3,557,279 | \$ 1,023,000 | \$ 38,180,027 | \$ 5,533,159 |

The accompanying notes are an integral part of this statement.

Seva Foundation

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017
(with summarized financial information for the year ended June 30, 2016)

| | 2017 | | | Total | 2016 |
|---|----------------------|------------------------|------------------------|----------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Revenue, gains, and other support: | | | | | |
| Contributions | \$ 6,748,807 | \$ 2,318,426 | \$ 1,000,000 | \$ 10,067,233 | \$ 3,595,668 |
| Contributions - in-kind | 26,340,549 | 251,053 | - | 26,591,602 | 473,465 |
| Grants: | | | | | |
| Foundation and corporations | 1,155,604 | 1,782,056 | - | 2,937,660 | 2,773,828 |
| Agency | 496,130 | - | - | 496,130 | 148,580 |
| Government | 41,399 | - | - | 41,399 | 23,000 |
| Realized and unrealized gain on investments | 51,330 | 1,302 | - | 52,632 | 8,380 |
| Rental income - LLC | 824,203 | - | - | 824,203 | - |
| Special events, net of direct expenses of \$123,754 | 100,645 | - | - | 100,645 | 91,639 |
| Dividend income | 31,037 | 703 | - | 31,740 | 14,254 |
| Other income | 11,532 | - | - | 11,532 | 30,241 |
| Net assets released from restrictions | 3,893,749 | (3,893,749) | - | - | - |
| Total revenues, gains, and other support | <u>39,694,985</u> | <u>459,791</u> | <u>1,000,000</u> | <u>41,154,776</u> | <u>7,159,055</u> |
| Expenses: | | | | | |
| Program services | 6,637,466 | - | - | 6,637,466 | 5,273,395 |
| Supporting services: | | | | | |
| Management and general | 597,991 | - | - | 597,991 | 448,923 |
| Fundraising | 763,895 | - | - | 763,895 | 631,355 |
| Total expenses | <u>7,999,352</u> | <u>-</u> | <u>-</u> | <u>7,999,352</u> | <u>6,353,673</u> |
| Change in net assets | 31,695,633 | 459,791 | 1,000,000 | 33,155,424 | 805,382 |
| Net assets - beginning of year | <u>1,083,089</u> | <u>3,097,488</u> | <u>23,000</u> | <u>4,203,577</u> | <u>3,398,195</u> |
| Net assets - end of year | <u>\$ 32,778,722</u> | <u>\$ 3,557,279</u> | <u>\$ 1,023,000</u> | <u>\$ 37,359,001</u> | <u>\$ 4,203,577</u> |

The accompanying notes are an integral part of this statement.

Seva Foundation

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017
(with summarized financial information for the year ended June 30, 2016)

| | Supporting Services | | Programs | | | | | | |
|-----------------------------------|-------------------------------|-------------------|-------------------------------------|------------------|-------------------|---------------------|-------------------------|-------------------|-------------------|
| | Management and Administrative | Fundraising | International Development Education | Pakistan | West Bengal | Aids Eye Initiative | Global Sight Initiative | Nepal | India |
| Expenditures: | | | | | | | | | |
| Salaries | \$ 239,992 | \$ 391,309 | \$ 471,885 | \$ 1,424 | \$ 1,424 | \$ 1,424 | \$ 574,657 | \$ 113,424 | \$ 10,017 |
| Employee - benefits | 64,429 | 75,244 | 90,630 | 191 | 191 | 191 | 103,686 | 7,373 | 1,528 |
| Advertising / recruitment | 49,878 | - | - | - | - | - | 180 | - | - |
| Bank and payroll charges | 11,937 | 30,958 | - | - | - | - | - | - | - |
| Board expense | 16,480 | - | - | - | - | - | - | - | - |
| Community outreach | - | - | - | - | - | - | - | 158,100 | - |
| Computer parts and supplies | 6,609 | 1,707 | 2,492 | - | - | - | 8,977 | - | - |
| Depreciation and amortization | 9,674 | - | - | - | - | - | - | - | - |
| Donor cultivation | - | 27,472 | 1,898 | - | - | - | - | - | - |
| Dues and subscriptions | 10,174 | 3,594 | 120 | - | 2,861 | - | 52,938 | - | 18,752 |
| Equipment leases | 2,889 | 1,839 | 1,132 | - | - | - | 2,617 | - | - |
| Eye camps | - | - | - | - | - | - | - | 12,000 | - |
| Fees /dues/ licenses | 3,286 | 45,808 | 396 | - | - | - | 2,214 | - | - |
| Field office expenses | - | - | - | - | - | - | 131 | 2,386 | - |
| Gifts of sight | - | 12,709 | 50,836 | - | - | - | 91,904 | - | - |
| Grants | - | - | - | 95,927 | 202,213 | - | 1,000 | 209,907 | 773,597 |
| In-kind: | | | | | | | | | |
| Advertising | 5,520 | 3,794 | 143,772 | - | 1,222 | - | 59,693 | 9,071 | 20,705 |
| System and business consultants | 2,442 | 1,678 | 63,595 | - | 541 | - | 26,404 | 4,012 | 9,159 |
| Volunteer services and physicians | 1,482 | 1,019 | 38,594 | - | 328 | - | 16,024 | 2,435 | 5,558 |
| Glasses and supplies | 1,394 | 958 | 36,301 | - | 309 | - | 15,072 | 2,290 | 5,228 |
| Insurance | 3,908 | 3,858 | 2,230 | - | - | - | 5,895 | - | - |
| Maintenance agreements | - | 9,272 | - | - | - | - | - | - | - |
| Miscellaneous | - | 915 | 77 | - | - | - | 54 | - | - |
| Office rent and utilities | 37,001 | 42,205 | 25,361 | - | - | - | 50,747 | - | - |
| Office supplies | 5,162 | 4,076 | 3,143 | - | - | - | 1,745 | - | - |
| Other program expenses | - | - | - | - | - | - | 44 | - | - |
| Postage and delivery | 465 | 7,072 | 17 | - | - | - | 232 | - | - |
| Printing and copying | 821 | 675 | - | - | - | - | - | - | - |
| Professional services | 114,206 | 28,452 | 35,935 | - | - | - | - | - | - |
| Program consultants | - | - | - | - | - | - | 107,375 | 12,390 | - |
| Program equipment | - | - | - | - | - | 2,282 | 1,864 | 169,028 | - |
| Program evaluation / monitoring | - | - | - | - | - | - | 312 | 7,030 | 10,698 |
| Program training | - | - | - | - | - | - | - | 55,761 | 860 |
| Program travel | 474 | 547 | 4,346 | 428 | 150 | 7,360 | 32,294 | 11,143 | 13,357 |
| Property tax | - | 3,159 | - | - | - | - | - | - | - |
| Publications | - | - | 29,466 | - | - | - | - | - | - |
| Repair and maintenance | 1,430 | 102 | - | - | - | - | - | - | - |
| Staff development | 813 | 4,360 | 106 | - | - | - | 564 | - | - |
| Telephone | 7,525 | - | - | - | - | - | 1,261 | - | - |
| Year end appeal | - | 61,113 | - | - | - | - | - | - | - |
| Total expenditures | \$ 597,991 | \$ 763,895 | \$ 1,002,331 | \$ 97,970 | \$ 209,239 | \$ 11,257 | \$ 1,157,883 | \$ 776,350 | \$ 869,459 |

The accompanying notes are an integral part of this statement.

Seva Foundation

STATEMENT OF FUNCTIONAL EXPENSES (continued)

For the year ended June 30, 2017
(with summarized financial information for the year ended June 30, 2016)

| | Programs | | | | | | | | |
|-----------------------------------|---------------------------------|------------|--------------------------------|------------|------------------------------------|------------|------------|--------------------|-----------|
| | Seeing is Believing India | Bangladesh | Tanzania Ethiopia Uganda | Cambodia | Seeing is Believing Cambodia | Guatemala | Tibet | Egypt / Magrabi | Paraguay |
| Expenditures: | | | | | | | | | |
| Salaries | \$ 15,250 | \$ 1,424 | \$ 1,424 | \$ 113,320 | \$ 12,500 | \$ 1,424 | \$ - | \$ - | \$ - |
| Employee - benefits | - | 191 | 191 | 6,713 | - | 190 | - | - | - |
| Advertising / recruitment | - | - | - | - | - | - | - | - | - |
| Bank and payroll charges | - | - | - | - | - | - | - | - | - |
| Board expense | - | - | - | - | - | - | - | - | - |
| Community outreach | - | - | - | 33,310 | 84,730 | - | - | - | - |
| Computer parts and supplies | 1,509 | - | - | - | - | - | - | - | - |
| Depreciation and amortization | - | - | - | - | - | - | - | - | - |
| Donor cultivation | - | - | - | - | - | - | - | - | - |
| Dues and subscriptions | 2,118 | - | - | 15,500 | - | - | 5,000 | - | - |
| Equipment leases | - | - | - | - | - | - | - | - | - |
| Eye camps | - | - | - | 53,894 | - | - | - | - | - |
| Fees /dues/ licenses | - | - | - | - | - | - | - | - | - |
| Field office expenses | 46 | - | - | 12,687 | 2,400 | - | - | - | - |
| Gifts of sight | - | - | - | - | - | - | - | - | - |
| Grants | 263,744 | 288,505 | 450,933 | 170,344 | 15120 | 205,996 | 148,100 | 42,500 | 13,000 |
| In-kind: | | | | | | | | | |
| Advertising | - | - | - | 21,757 | - | - | - | - | - |
| System and business consultants | - | - | - | 9,624 | - | - | - | - | - |
| Volunteer services and physicians | - | - | - | 5,840 | - | - | - | - | - |
| Glasses and supplies | - | - | - | 5,493 | - | - | - | - | - |
| Insurance | - | - | - | - | - | - | - | - | - |
| Maintenance agreements | - | - | - | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | - | - | - | - |
| Office rent and utilities | - | - | - | - | - | - | - | - | - |
| Office supplies | - | - | - | - | - | - | - | - | - |
| Other program expenses | - | - | - | - | - | - | 11 | - | - |
| Postage and delivery | - | - | - | - | - | - | - | - | - |
| Printing and copying | - | - | - | - | - | - | - | - | - |
| Professional services | - | - | - | - | - | - | - | - | - |
| Program consultants | - | - | - | 11,250 | - | - | 3,820 | - | - |
| Program equipment | - | - | - | 17,019 | - | - | - | - | - |
| Program evaluation /monitoring | - | - | - | 3,600 | 1,800 | - | - | - | - |
| Program training | - | - | - | 3,209 | 4,015 | - | - | - | - |
| Program travel | 10,463 | - | 8,697 | 7,046 | - | 3,052 | 2,104 | - | - |
| Property tax | - | - | - | - | - | - | - | - | - |
| Publications | - | - | - | - | - | - | - | - | - |
| Repair and maintenance | - | - | - | - | - | - | - | - | - |
| Staff development | - | - | - | - | - | - | - | - | - |
| Telephone | 1,509 | - | - | - | - | - | - | - | - |
| Year end appeal | - | - | - | - | - | - | - | - | - |
| Total expenditures | \$ 294,638 | \$ 290,120 | \$ 461,245 | \$ 490,606 | \$ 120,565 | \$ 210,662 | \$ 159,035 | \$ 42,500 | \$ 13,000 |

The accompanying notes are an integral part of this statement.

Seva Foundation

STATEMENT OF FUNCTIONAL EXPENSES (continued)

For the year ended June 30, 2017
(with summarized financial information for the year ended June 30, 2016)

| | Programs | | | | Total Programs | 2017 Total | 2016 Total |
|-----------------------------------|-----------|------------|----------|--------------------------------|-------------------|---------------|---------------|
| | Peru | Myanmar | Mexico | Native American Programs | | | |
| Expenditures: | | | | | | | |
| Salaries | \$ - | \$ - | \$ - | \$ 104,623 | \$ 1,424,220 | \$ 2,055,521 | \$ 1,690,932 |
| Employee - benefits | - | - | - | 16,502 | 227,577 | 367,250 | 334,734 |
| Advertising / recruitment | - | - | - | - | 180 | 50,058 | 8,837 |
| Bank and payroll charges | - | - | - | - | - | 42,895 | 38,773 |
| Board expense | - | - | - | - | - | 16,480 | 18,910 |
| Community outreach | - | - | - | - | 276,140 | 276,140 | 197,683 |
| Computer parts and supplies | - | - | - | 11 | 12,989 | 21,305 | 14,122 |
| Depreciation and amortization | - | - | - | - | - | 9,674 | 9,674 |
| Donor cultivation | - | - | - | - | 1,898 | 29,370 | 87,956 |
| Dues and subscriptions | - | - | - | - | 97,289 | 111,057 | 71,946 |
| Equipment leases | - | - | - | - | 3,749 | 8,477 | 8,448 |
| Eye camps | - | - | - | - | 65,894 | 65,894 | 136,581 |
| Fees /dues/ licenses | - | - | - | - | 2,610 | 51,704 | 47,589 |
| Field office expenses | - | - | - | - | 17,650 | 17,650 | 21,777 |
| Gifts of sight | - | - | - | 14,407 | 157,147 | 169,856 | 221,622 |
| Grants | 44,300 | 38,886 | 6,500 | 54,666 | 3,025,238 | 3,025,238 | 1,835,559 |
| In-kind: | | | | | | | |
| Advertising | - | 15,428 | - | - | 271,648 | 280,963 | 150,510 |
| System and business consultants | - | 6,824 | - | - | 120,158 | 124,278 | 125,580 |
| Volunteer services and physicians | - | 4,141 | - | - | 72,921 | 75,421 | 134,512 |
| Glasses and supplies | - | 3,895 | - | - | 68,588 | 70,940 | 62,863 |
| Insurance | - | - | - | - | 8,125 | 15,891 | 13,173 |
| Maintenance agreements | - | - | - | - | - | 9,272 | 2,287 |
| Miscellaneous | - | - | - | - | 131 | 1,046 | 5,160 |
| Office rent and utilities | - | - | - | - | 76,108 | 155,314 | 150,394 |
| Office supplies | - | - | - | - | 4,888 | 14,126 | 15,918 |
| Other program expenses | - | - | - | 69 | 124 | 124 | 5,909 |
| Postage and delivery | - | - | - | 80 | 329 | 7,866 | 13,449 |
| Printing and copying | - | - | - | - | - | 1,496 | 1,309 |
| Professional services | - | - | - | - | 35,935 | 178,593 | 163,451 |
| Program consultants | - | - | - | - | 134,835 | 134,835 | 148,384 |
| Program equipment | - | 57,378 | - | 24 | 247,595 | 247,595 | 283,957 |
| Program evaluation /monitoring | - | - | - | - | 23,440 | 23,440 | 15,032 |
| Program training | - | 20,300 | - | - | 84,145 | 84,145 | 66,975 |
| Program travel | 16,444 | 10,297 | 366 | 15,464 | 143,010 | 144,031 | 151,154 |
| Property tax | - | - | - | - | - | 3,159 | - |
| Publications | - | - | - | - | 29,466 | 29,466 | 23,552 |
| Repair and maintenance | - | - | - | - | - | 1,532 | 2,031 |
| Staff development | - | - | - | - | 670 | 5,843 | 2,887 |
| Telephone | - | - | - | - | 2,770 | 10,295 | 11,117 |
| Year end appeal | - | - | - | - | - | 61,113 | 58,926 |
| Total expenditures | \$ 60,744 | \$ 157,150 | \$ 6,866 | \$ 205,846 | \$ 6,637,466 | \$ 7,999,352 | \$ 6,353,673 |

The accompanying notes are an integral part of this statement.

Seva Foundation

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017
(with summarized financial information for the year ended June 30, 2016)

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|---------------------|
| Cash flows provided by (used in) operating activities: | | |
| Change in net assets | \$ 33,155,424 | \$ 805,382 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Contributed interest in LLC | (25,340,000) | - |
| Contributed properties | (700,000) | - |
| Depreciation and amortization | 9,674 | 9,674 |
| Realized and unrealized gain on investments | (52,632) | (8,380) |
| Changes in operating assets and liabilities: | | |
| Inventory | 1,723 | (1,937) |
| Prepaid expenses | (20,195) | (17,114) |
| Cash advances | (46,228) | 140,697 |
| Receivables | (1,869,146) | 53,151 |
| Grant advances | (69,253) | (22,026) |
| Accounts payable and accrued expenses | (17,489) | (7,091) |
| Wages payable | 37,995 | 5,533 |
| Grants payable | (20,855) | (637,650) |
| Reimbursements | 66,981 | (137,874) |
| Deferred revenue | (575,188) | 714,509 |
| Due to other agencies | - | (500) |
| Net cash provided by operating activities | <u>4,560,811</u> | <u>896,374</u> |
| Cash flows provided by (used in) investing activities: | | |
| Purchase of investments | <u>(1,028,453)</u> | <u>(13,851)</u> |
| Net cash used in investing activities | <u>(1,028,453)</u> | <u>(13,851)</u> |
| Net increase in cash and cash equivalents | 3,532,358 | 882,523 |
| Cash and cash equivalents - beginning of year | <u>3,120,740</u> | <u>2,238,217</u> |
| Cash and cash equivalents - end of year | <u>\$ 6,653,098</u> | <u>\$ 3,120,740</u> |
| Supplemental cash flow information: | | |
| Non-cash disclosure - | | |
| Contributed interest in LLC | <u>\$ 25,340,000</u> | <u>\$ -</u> |
| Contributed properties | <u>\$ 700,000</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these statements.

Seva Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A – ORGANIZATION AND NATURE OF ACTIVITIES

Seva Foundation (“Seva” or the “Foundation”) is a California nonprofit corporation. Seva Foundation has been transforming lives by restoring vision around the globe for more than 35 years. Every year, Seva provides cataract surgery, eyeglasses, and training to people in more than 20 countries. Seva finds and strengthens dedicated, capable partners. Seva’s goal is project sustainability and self-reliance so its partners can continue delivering services far into the future. Around the world, Seva helps to end preventable blindness. Seva also develops and disseminates educational /informational materials and literature to a broader audience as part of its mission to educate the public about the worldwide need for sight restoration and blindness prevention programs.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Description of net assets

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted net assets

Unrestricted net assets consist of unconditional promises to give by donors without any use or time restrictions.

Temporarily restricted net assets

Temporarily restricted net assets consist of gifts of cash or other assets received from donors that specify a specific use, the occurrence of a certain future event, or the passage of time.

Permanently restricted net assets

Permanently restricted net assets consist of contributions by donors that specify the assets donated be invested to provide a permanent source of income.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of net assets (continued)

Net assets also incorporates endowments as follows:

Endowments

The State of California enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds. Net asset classifications of donor-restricted endowment funds subject to UPMIFA have been accounted for in these financial statements. Additional disclosures about the Foundation's endowment funds (both donor-restricted and board-designated endowment funds), have been included for the year ending June 30, 2017.

Interpretation of relevant law

The Board of the Foundation has interpreted the State of California's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. 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 standard of prudence prescribed by UPMIFA.

Spending policy

If the donor does not restrict the allowed use of the income, the Foundation may determine the income's availability to the Foundation's operations. The Foundations spending policy is to not spend from the Endowment Fund until the principal amount exceeds \$3,000,000.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of net assets (continued)

Endowments (continued)

Investment policy

The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board, the endowment assets are invested in readily marketable debt and equity securities. To satisfy its long-term objectives, the Foundation relies on a strategy in which investment returns are achieved through current yield (interest and dividends) and unrealized and realized gains from changes in market value.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles (GAAP), deficiencies of this nature are reported in temporarily restricted or unrestricted net assets. Such deficiencies may result from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. There were no such deficiencies at June 30, 2017.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of credit risk

The Foundation maintains its cash balances at various financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At various times throughout the year, the balances in these accounts may be in excess of insured amounts. The Foundation has not experienced any losses in such accounts and management believes that it is not exposed to any significant risk on these excess deposits.

Seva Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The Foundation considers all highly liquid investments, with a maturity of three months or less at the time of purchase, to be cash equivalents. The Foundation holds its available cash in an interest bearing money market fund with a major United States bank and with brokerage houses.

Cash advances

Cash advances represent cash transferred to the Foundation's foreign offices for program services which have not been expended as of June 30, 2017. The foreign offices and their respective balances at June 30, 2017 consist of the following:

| | |
|----------|------------------|
| Nepal | \$ 5,971 |
| Cambodia | <u>62,414</u> |
| | <u>\$ 68,385</u> |

Inventory

Inventory consists of an assortment of merchandise such as t-shirts, decal stickers, and CDs sold by the Foundation on its website and is relieved on an average cost basis. Proceeds from inventory sales are used to further the Foundation's mission.

Receivables

Receivables include accounts, grants, and pledges receivable. Accounts receivable consist of trade receivables. Grants receivable consist of amounts due from government entities under cost-reimbursable sub-agreements. Pledges receivable include amount due from donors.

The Foundation uses the allowance method to account for uncollectible receivables. The allowance for doubtful accounts reflects management's best estimate of the amounts that will not be collected based on historical experience and an evaluation of the outstanding receivables at year end. At June 30, 2017, all receivables are considered fully collectible therefore, there is no allowance for doubtful accounts.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments consist of mutual funds that are recorded at their published fair market value. Unrealized and realized gains and losses are reflected as increases or decreases in unrestricted or temporarily restricted net assets, based on donor restrictions.

Investment interest in LLC is reported at cost which represents the original fair value on the date of contribution (refer to Note E).

Fair value measurements

The Foundation considers the use of market-based information over entity specific information in valuing its investments, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of the financial assets, as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* inputs to the valuation methodology - quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology - quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- *Level 3* inputs to the valuation methodology - unobservable and significant to the fair value measurement. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

An asset or liability's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Property and equipment

Land, buildings, and equipment are stated at cost less accumulated depreciation, or, if donated, at the fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which range from 3 to 39 years. The Foundation capitalizes assets with a cost or donated value of \$5,000 or more.

Seva Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grant advances and grants payable

Unconditional grants are recognized as grant expense and a liability when the Foundation approves the grants. Unconditional grants that are expected to be paid in more than one year are measured at net realizable value, which is calculated using the present value of the estimated future cash flows. Grant refunds are recorded as receivable and as a reduction of grant expense at the time the Foundation becomes aware the grant will be refunded. Unconditional grants approved during the year ended June 30, 2017 for future periods amounted to \$129,164.

Grants provided on a conditional basis are recognized as grant expense and a liability when services are performed (condition is fulfilled) by the grantees. The Foundation occasionally advances funds to grantees that have not yet performed the services necessary to recognize the revenue; such funds are refundable to the Foundation and are recorded as grant advances until services are performed.

Deferred revenue

Deferred revenue includes conditional funds received in advance for which the Foundation has not performed the services necessary to earn the revenue by the year-end.

Revenue recognition

The Foundation's significant revenue streams are derived from individual and in-kind contributions, foundation grants, federal grants, and special event revenue.

Contributions and grants

Contributions and grants, including unconditional promises to give, from individuals, foundations, corporations, governments and amounts collected as part of special events, are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Unconditional promises to give, including contributions from individuals and foundation grants, are recorded at their net realizable values. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional promises to give are not included as support until such time the conditions are substantially met.

Seva Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Contributions and grants (continued)

Government grant revenue is recognized as expenses are incurred under a cost-reimbursable sub-agreement. In some instances, foreign governments will provide contributions to the Foundation and, in those cases; the support is recognized as described above under “Contributions.”

Contributions - in-kind

Marketable equity securities, property or investments received by donation are sold as soon as practicable after receipt, and are classified based on the donor’s intention.

Donated interest in an LLC and real property are measured at fair value on the date of receipt. Donations of materials are recorded as support at their fair value on the date of the donation. Donated services are recognized if the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. During the year ended June 30, 2017, the Foundation received \$26,591,602 in in-kind contributions (refer to Note K).

Advertising

Advertising costs are expensed as incurred. For the year ended June 30, 2017, advertising costs totaled \$280,963, all of which were donated.

Income taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and by California Revenue and Taxation Code Section 23701(d), and accordingly, is not subject to federal and California income taxes.

Each year, management considers whether any material tax position the Foundation has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Foundation has taken are supported by substantial authority, and hence, do not need to be measured or disclosed in these financial statements.

Seva Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses

The Foundation's costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Direct costs associated with specific programs are recorded as program expenses. Program expenses include allocable management and general expenses. Management and general expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation, are shown separately.

Summarized financial information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements, as of, and for the year ended June 30, 2016, from which the summarized information was derived.

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation. There were no impact on the previously reported change in net assets.

Subsequent events

Management has evaluated subsequent events and transactions for potential recognition or disclosure through the date the financial statements are available to be issued, October 17, 2017.

NOTE C – PLEDGES RECEIVABLE

At June 30, 2017, pledges receivable are due as follows:

| | |
|----------------------------------|---------------------|
| Receivable in less than one year | \$ 2,446,777 |
| Receivable in two to three years | <u>341,087</u> |
| | <u>\$ 2,787,864</u> |

Seva Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE D – INVESTMENTS

At June 30, 2017, investments consisted of the following:

| | |
|--------------------------|---------------------|
| Equity index mutual fund | \$ 638,011 |
| Bond index mutual fund | <u>1,395,606</u> |
| | <u>\$ 2,033,617</u> |

The Foundation's investments are measured on a recurring basis using quoted prices in active markets for identical assets (level 1).

NOTE E – INTEREST IN LLC

On June 14, 2017, the Foundation was assigned a 62% interest in a LLC from the estate of one of the Foundations long-time donors. The Foundation recorded an in-kind contribution for the interest amounting to \$25,340,000 (refer to Note K), which represents the fair value at the time of contribution, December 29, 2016. At June 30, 2017, receivables related to rental income from the interest in the LLC amounted to \$120,235. On July 27, 2017 the underlying property of the LLC was sold. The Foundation's subsequently received \$24,919,200 for its 62% interest and anticipates a final distribution from the LLC of approximately \$420,000 upon liquidation of the LLC.

NOTE F – PROPERTY AND EQUIPMENT

At June 30, 2017, property and equipment are comprised of the following:

| | |
|---|-------------------|
| Land | \$ 337,175 |
| Building | 362,825 |
| Leasehold improvements | 47,104 |
| Furniture and equipment | 99,345 |
| Vehicles | <u>33,330</u> |
| | 879,779 |
| Accumulated depreciation and amortization | <u>(159,881)</u> |
| | <u>\$ 719,898</u> |

For the year ended June 30, 2017, depreciation expense amounted to \$9,674.

Seva Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2017, temporarily restricted net assets consisted of the following:

| | |
|--------------------|---------------------|
| GSI/Sight Programs | \$ 3,359,073 |
| Future periods | 191,937 |
| Endowment earnings | <u>6,269</u> |
| | <u>\$ 3,557,279</u> |

During the year ended June 30, 2017, temporarily restricted net assets were released from the following restrictions:

| | |
|------------------------|---------------------|
| GSI/Sight Programs | \$ 3,863,749 |
| Future funding periods | <u>30,000</u> |
| | <u>\$ 3,893,749</u> |

NOTE H – ENDOWMENT

The Foundation's endowments consist of permanently restricted donations for general endowment purposes, in addition to unrestricted funds designated by the Board to function as a general endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

At June 30, 2017, endowment net assets are classified as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment</u> |
|------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------------|
| Donor - restricted endowment funds | \$ - | \$ 6,269 | \$ 1,023,000 | \$ 1,029,269 |
| Board - designated funds | <u>2,004,348</u> | <u>-</u> | <u>-</u> | <u>2,004,348</u> |
| Total funds | <u>\$ 2,004,348</u> | <u>\$ 6,269</u> | <u>\$ 1,023,000</u> | <u>\$ 3,033,617</u> |

Seva Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE H – ENDOWMENT (continued)

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------------|
| Endowment net assets - beginning of year | \$ 925,269 | \$ 4,264 | \$ 23,000 | \$ 952,533 |
| Board designations | 1,000,000 | - | - | 1,000,000 |
| Contributions | - | - | 1,000,000 | 1,000,000 |
| Unrealized and realized gain on investments | 51,330 | 1,302 | - | 52,632 |
| Dividend income reinvested | 27,749 | 703 | - | 28,452 |
| Endowment net assets - end of year | <u>\$ 2,004,348</u> | <u>\$ 6,269</u> | <u>\$ 1,023,000</u> | <u>\$ 3,033,617</u> |

NOTE I – LEASE OBLIGATIONS

The Foundation leases facilities under various leases requiring monthly payments ranging from approximately \$1,200 to \$5,000, expiring at various dates through 2018. The Foundation also maintains leases for office equipment with payments ranging from approximately \$200 to \$400 and expiring through 2021. Future minimum lease payments for facilities and equipment are as follows:

| <u>Year ended June 30,</u> | <u>Facilities</u> | <u>Equipment</u> | <u>Total</u> |
|----------------------------|-------------------|------------------|------------------|
| 2018 | \$ 48,000 | \$ 5,961 | \$ 53,961 |
| 2019 | - | 4,476 | 4,476 |
| 2020 | - | 4,476 | 4,476 |
| 2021 | - | 3,730 | 3,730 |
| | <u>\$ 48,000</u> | <u>\$ 18,643</u> | <u>\$ 66,643</u> |

Total rent expense amounted to \$155,315 for the year ended June 30, 2017.

NOTE J – LINE OF CREDIT

The Foundation has a \$400,000 unsecured line of credit with Bank of Marin, which expires in October 2017. The line provides for interest at the Bank's prime rate plus 1.5%. The loan agreement specifies certain financial and other covenants. At June 30, 2017, there was no outstanding balance on the line of credit.

Seva Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE K – IN-KIND CONTRIBUTIONS

For the year ended June 30, 2017, in-kind contributions were as follows:

| | |
|--|----------------------|
| Interest in LLC | \$ 25,340,000 |
| Real property | 700,000 |
| Advertising | 280,963 |
| System and business management consultants | 124,278 |
| Field office salaries | 51,633 |
| Eye glass frames | 65,334 |
| Physicians | 14,000 |
| Other volunteer services | 9,788 |
| Other equipment/supplies | 5,606 |
| | <u>\$ 26,591,602</u> |

NOTE L – MULTI-YEAR GRANTS

The Foundation has received several multi-year unconditional grants. The revenue from these grants is recorded when the pledge/promise to give is received. For the fiscal year ended June 30, 2017, the Foundation recognized approximately \$130,000 of expenses associated with unconditional, but temporarily restricted, grant revenue recognized in previous years.

On January 12, 2016, the Foundation received two agency grant awards from Standard Chartered Bank's "Seeing is Believing" program. This program's mission is to treat avoidable blindness and visual impairment by improving access to affordable and quality eye care. The Foundation partnered with SIB in India and Cambodia. For the year ended June 30, 2017, the Foundation received \$149,314 in grants for Cambodia and \$357,298 in grant for India; of which the Foundation implemented projects of \$120,565 and \$294,638 respectively in each partnership.

NOTE M – RETIREMENT PLAN

The Foundation had established a Retirement Annuity Plan for its employees under Section 403(b) of the Internal Revenue Code. On February 24, 2017, the Foundation terminated the 403(b) plan and adopted a new defined contributions plan operating under Section 401(k) of the Internal Revenue Code. Employees are eligible to participate in the plan after 12 months of service. For the year ended June 30, 2017, the Foundation elected to make a discretionary contribution of \$84,567 to the plan.

Seva Foundation

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE N – CONCENTRATIONS

At June 30, 2017, the Foundation had two donors representing approximately 90% of pledges receivable. For the year ended June 30, 2016, the Foundation had two donors representing approximately 76% of total support revenue.