



Report of Independent Auditors and  
Consolidated Financial Statements for

**The Lighthouse for the Blind,  
Incorporated and its Foundation**

September 30, 2014 and 2013

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees  
The Lighthouse for the Blind, Incorporated and its Foundation

### **Report on Financial Statements**

We have audited the accompanying consolidated financial statements of The Lighthouse for the Blind, Incorporated and its Foundation, which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of activities and changes in unrestricted net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Lighthouse for the Blind, Incorporated and its Foundation as of September 30, 2014 and 2013, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Seattle, Washington  
March 3, 2015

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
AND ITS FOUNDATION  
CONSOLIDATED BALANCE SHEETS**

	ASSETS	
	September 30,	
	2014	2013
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,902,268	\$ 12,649,728
Accounts receivable, net of allowance for doubtful accounts of \$365,000	4,979,247	5,004,319
Other receivables	119,681	64,900
Inventory, net of reserve of \$592,161 and \$641,499, respectively	9,022,158	7,097,176
Other assets	153,210	124,038
Total current assets	24,176,564	24,940,161
<b>INVESTMENTS</b>	14,721,426	13,543,183
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	17,128,564	16,519,316
	\$ 56,026,554	\$ 55,002,660
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,500,806	\$ 4,029,385
Deferred revenue	170,083	290,250
Accrued vacation and sick leave	964,933	959,347
Other liabilities	50,191	169,483
Current portion of long-term debt	200,000	200,000
Total current liabilities	5,886,013	5,648,465
<b>UNFUNDED PENSION OBLIGATION</b>	1,907,646	1,586,078
<b>LONG-TERM DEBT, net of current portion</b>	4,600,000	4,800,000
Total liabilities	12,393,659	12,034,543
<b>UNRESTRICTED NET ASSETS</b>		
Unrestricted	28,426,846	28,847,785
Board designated	15,206,049	14,120,332
	43,632,895	42,968,117
	\$ 56,026,554	\$ 55,002,660

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
AND ITS FOUNDATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
AND CHANGES IN UNRESTRICTED NET ASSETS**

	Years Ended September 30,	
	2014	2013
NET SALES	\$ 57,972,889	\$ 50,594,137
COST OF SALES	<u>47,132,820</u>	<u>40,681,658</u>
COSTS AND EXPENSES	<u>10,840,069</u>	<u>9,912,478</u>
Warehouse and shipping	705,568	656,497
Selling	193,804	207,471
Administrative	7,585,683	7,293,763
Provision for doubtful accounts (recoveries)	<u>8,887</u>	<u>-</u>
	<u>8,493,942</u>	<u>8,157,732</u>
INCOME FROM MANUFACTURING AND SERVICE BUSINESSES	<u>2,346,127</u>	<u>1,754,747</u>
OTHER INCOME (EXPENSE)		
Investment return	1,392,727	1,517,216
Excess of employee and community services expenses over support and revenue	(1,946,767)	(1,896,799)
Impairment costs	(1,230,115)	-
Other expense, net	(633,659)	(556,475)
Bequests, contributions, grants and charitable trust distributions	<u>1,447,328</u>	<u>1,193,644</u>
	<u>(970,486)</u>	<u>257,586</u>
OPERATING INCOME	1,375,641	2,012,333
PENSION BENEFIT OBLIGATION ADJUSTMENT	<u>(710,863)</u>	<u>4,655,627</u>
CHANGE IN UNRESTRICTED NET ASSETS	664,778	6,667,960
UNRESTRICTED NET ASSETS		
Beginning of year	<u>42,968,117</u>	<u>36,300,157</u>
End of year	<u>\$ 43,632,895</u>	<u>\$ 42,968,117</u>

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
AND ITS FOUNDATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended September 30,	
	2014	2013
<b>OPERATING ACTIVITIES</b>		
Change in unrestricted net assets	\$ 664,778	\$ 6,667,960
Adjustments to reconcile change in unrestricted net assets to cash provided by operating activities		
Depreciation	1,963,999	1,825,679
Realized and unrealized gain on investments, net	(1,153,941)	(1,270,355)
Unfunded pension obligation	321,568	(4,678,282)
Loss on sale/disposal of property, plant and equipment	-	98,766
Effect of asset impairment	1,230,115	-
Changes in operating assets and liabilities		
Accounts receivable	25,072	(1,740,137)
Other receivables	(54,781)	270,194
Inventory	(1,924,982)	2,651
Other assets	(29,172)	(5,848)
Liabilities	237,548	435,371
	<u>1,280,204</u>	<u>1,605,999</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	(4,507,108)	(2,002,767)
Proceeds from sale of investments	4,482,806	2,187,230
Purchases of property, plant and equipment	(3,803,362)	(3,275,229)
Proceeds from sale of property, plant and equipment	-	18,750
	<u>(3,827,664)</u>	<u>(3,072,016)</u>
<b>FINANCING ACTIVITIES</b>		
Principal repayments of long-term debt	(200,000)	-
Proceeds from long-term debt	-	5,000,000
	<u>(200,000)</u>	<u>5,000,000</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(2,747,460)	3,533,983
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>12,649,728</u>	<u>9,115,745</u>
End of year	<u>\$ 9,902,268</u>	<u>\$ 12,649,728</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 149,035</u>	<u>\$ 63,538</u>

# THE LIGHTHOUSE FOR THE BLIND, INCORPORATED AND ITS FOUNDATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Note 1 - Operations and Summary of Significant Accounting Policies

**Operations** - The Lighthouse for the Blind, Incorporated (the Lighthouse) and The Seattle Lighthouse for the Blind Foundation (the Foundation) is a not-for-profit organization whose objective is to create and enhance opportunities for independence and self-sufficiency of people who are blind, Deaf-Blind and blind with other disabilities.

The principal activities of the Lighthouse are conducted at its office and plant facilities located in Seattle and Spokane, Washington and base supply center operations and contract closeout services in a variety of locations.

The principal functions of the Lighthouse include:

- Manufacturing and assembly of aerospace, military and other products utilizing metal fabrication, injection molding and other processes.
- Manufacturing of military canteens, dry bags, entrenching tools, hydration systems, communication boards, easels, notebook binders, paper trimmers, file folders and other items under government contracts.
- Operating military base supply centers for sales of office and other supplies to the bases, as well as preparing contracts for closure for government customers.
- Operating a center that provides evaluation, orientation and mobility, vocational, communication and educational training services.

The Foundation is an organization committed to soliciting funds exclusively for the Lighthouse. The funds are primarily used to support employee and community service programs. The Foundation was formed in January 2003 as a 501(c)(3) organization.

**Principles of Consolidation** - The Lighthouse and the Foundation (collectively, the Organization) have some common Board of Trustees members and common management. The consolidated financial statements include the accounts of the Lighthouse and the Foundation. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

**Basis of Presentation** - The Organization presents its consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Under the requirements of GAAP, financial position and activities are reported according to three classes of net assets - unrestricted, temporarily restricted and permanently restricted. The restriction of these net asset classes is determined based on the existence and nature of donor-imposed restrictions. Temporarily restricted support received during the fiscal period, for which the restriction expires or the purpose is accomplished during the same period, is reported as unrestricted support.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
AND ITS FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1 - Operations and Summary of Significant Accounting Policies (Continued)**

At September 30, 2014 and 2013, the Organization had no temporarily or permanently restricted net assets.

**Cash and Cash Equivalents** - The Organization deposits all cash and cash equivalents with major financial institutions. At times, such deposit balances may be in excess of the federal insurance limits. The Organization considers highly liquid debt instruments with an original maturity of three months or less at time of acquisition to be cash equivalents.

**Allowance for Doubtful Accounts** - The Organization extends credit to substantially all of its customers. Accounts receivable are recorded at the invoice amount and do not bear interest. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of its customers to pay. The Organization determines the allowance based on review of past due balances, historical loss experience and economic data. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Organization has established credit policies and historically the losses related to customer nonpayment have been low as a percentage of net sales.

**Inventory** - Manufacturing inventory is recorded at the lower of cost (as determined by the first-in, first-out method) or market. Manufactured work-in-process and finished goods inventories include an allocable portion of manufacturing overhead. Base supply inventory is recorded at weighted average cost and included in finished goods.

**Investments** - The Organization places its investments with an investment manager and invests funds in various financial instruments as detailed in Note 3, in accordance with the Board approved investment policy.

The Organization's investments are recorded in the consolidated financial statements at fair value. Net appreciation (depreciation) in investments, including realized gains or (losses) and unrealized appreciation (depreciation) on those investments, as well as all dividends, interest, and other investment income net of fees, is shown in the consolidated statement of activities in the line item "investment return." Investment income (loss) is reported as an increase (decrease) in unrestricted net assets.

Investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the consolidated balance sheet.



# THE LIGHTHOUSE FOR THE BLIND, INCORPORATED

## AND ITS FOUNDATIONS

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

**Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets, which range as follows:

Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 10 years

The Organization follows the practice of capitalizing substantially all expenditures for property, plant and equipment in excess of \$5,000. The cost of repairs, maintenance, and depreciation are charged to expense.

**Long-Lived Assets** - Long-lived assets, including property, plant and equipment, are evaluated for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. The Organization conducts its long-lived asset impairment analyses in accordance with Accounting Standards Codification (ASC) 360-10-15, "Impairment or Disposal of Long-Lived Assets."

When evaluating long-lived assets for potential impairment, the Organization first compares the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying value of the asset, the Organization calculates an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value. The Organization recognizes an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If the Organization recognizes an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

The Organization's impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows.

**Net Sales** - Sales are presented on the consolidated statement of activities net of returns and allowances. Returns and allowances were not material for the years ended September 30, 2014 and 2013.

**Deferred Revenue** - Deferred revenue represents customer prepayments for purchases of base supply center items. The revenue from these prepaid funds is recorded at the time the goods are shipped.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1 - Operations and Summary of Significant Accounting Policies (Continued)**

**Freight and Shipping Costs** - Shipping fees charged to customers are accounted for as a component of sales revenue and those incurred by the Organization as a component of warehouse and shipping costs. Freight incurred by the Organization is included as a component of cost of sales.

**Bequests and Contributions** - As the Organization does not usually receive advance notification of charitable trust fund distributions or other contributions, bequests and contributions are generally recognized as income at fair market value when the gift is received. However, in the event that specific advance notice is provided, bequests and contributions are recognized when an unconditional promise is made and all donor-imposed conditions relating to the promise are met.

**Fund-Raising Expense** - Total fund-raising expense for the years ended September 30, 2014 and 2013 was \$115,783 and \$66,679, respectively. Fund-raising expenses were 8% and 6% of the total contribution revenue for the years ended September 30, 2014 and 2013, respectively. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

**Income Taxes** - The Organization is exempt from federal income tax as an entity described in Internal Revenue Code (IRC) Section 501(c)(3) except to the extent of unrelated business taxable income as defined under the provisions of IRC Sections 511 through 515. The Organization did not incur unrelated business income tax for the years ended September 30, 2014 and 2013. In addition, the Organization qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a). Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

The Organization follows the provisions of authoritative guidance relating to accounting for uncertain tax positions. The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Organization recognizes interest and penalties related to income tax matters in income tax expense. As of September 30, 2014 and 2013, the Organization had no uncertain tax positions requiring accrual. The Organization files an exempt organization return in the U.S. federal jurisdiction and is no longer subject to income tax examinations by taxing authorities for fiscal years before 2011 for its federal filings.

**Use of Estimates** - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from those estimates.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1 - Operations and Summary of Significant Accounting Policies (Continued)**

**Fair Value of Financial Instruments** - As of September 30, 2014 and 2013, the Organization has the following financial instruments: cash and cash equivalents, accounts receivable, other receivables, investments, accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value based on the liquidity of these financial instruments and their short-term nature. The Organization's debt borrowings approximate fair value because the interest rate is consistent with current market rates. Carrying value of investments approximate fair value as discussed in Note 3.

**Reclassifications** - Certain reclassifications were made to prior year balances. The reclassifications were for presentation purposes only and had no effect on the current year change in unrestricted net assets.

**Subsequent Events** - Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are issued. The Organization has evaluated subsequent events through March 3, 2015, which is the date the consolidated financial statements were issued.

**Note 2 - Allowance for Doubtful Accounts**

The following summarizes the change in the allowance for doubtful accounts for the years ended September 30:

	2014	2013
Beginning balance as of October 1	\$ 365,000	\$ 365,000
Adjustments to allowance for doubtful accounts	8,887	-
Writeoffs of uncollected accounts	(8,887)	-
	\$ 365,000	\$ 365,000

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
AND ITS FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 3 - Investments**

**Investment Valuation** - In accordance with GAAP, 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.

The Organization classified its investments as of September 30, 2014 and 2013 based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

**Basis of Fair Value Measurement**

- Level 1**            Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
  
- Level 2**            Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly;
  
- Level 3**            Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable and are supported by little or no market activity.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments in domestic equity securities, which are valued based on quoted market prices in an active market are classified within Level 1.

Investments with values which are not established by an active market but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified as Level 2. These investments include common and collective trusts, mutual funds, corporate debt, U.S. government securities and a hedge fund. The hedge fund, common and collective trusts and mutual funds use net asset value (NAV) as a practical expedient for valuation. These investments are classified as Level 2 as they are redeemable at NAV (as adjusted for subsequent gains or losses through the effective date of redemption) without significant restrictions on redemption.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 3 - Investments (Continued)**

The venture capital investment is classified within Level 3. The managers and trustees of the venture capital investment generally value their underlying investments at the fair value and in accordance with GAAP. Investments with no readily available market are generally valued according to the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations and/or the income approach. Consideration is also given to financial condition and operating results of the investment, the amount a fund can reasonably expect to realize upon the sale of an investment, and any other factors deemed relevant. The Organization reviews the valuation and the assumptions used to value the venture capital investment annually.

An investment can be carried at acquisition price (cost) if little has changed since the initial investment of the Organization and it is most representative of fair value. Investments with a readily available market (listed on a securities exchange or traded in an over-the-counter market) are valued at quoted market prices or at an appropriate discount from such price if marketability of the securities is restricted. Investments consist of the following at September 30:

	<u>2014</u>	<u>2013</u>
Common and collective trusts	\$ 4,374,973	\$ 4,247,009
Equity securities	2,876,653	2,728,916
Mutual funds - equities	2,351,356	1,924,412
Mutual funds - fixed income	646,138	592,922
Mutual funds - commodities	345,053	117,257
Mutual funds - real estate indexed	313,467	317,703
Corporate debt	1,991,904	1,791,729
Hedge fund	895,907	824,444
U.S. government securities	473,393	575,300
Venture capital	452,582	423,491
	<u>\$ 14,721,426</u>	<u>\$ 13,543,183</u>

The Board of Trustees (the Board) has designated certain assets consisting of unrestricted bequests and contributions be allowed to accumulate to a level as determined by the Board. Taking into account the accumulated balance and based on current market conditions, a portion of the investment income and/or principal is used to support mission related employee and community service programs and as otherwise designated by the Board. These assets are included in investments and classified as unrestricted Board designated net assets.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 - Investments (Continued)**

The following summarizes the investment return at September 30:

	2014	2013
Dividends and interest	\$ 238,786	\$ 246,861
Realized gain, net	747,760	240,282
Unrealized gain, net	406,181	1,030,073
	\$ 1,392,727	\$ 1,517,216

The following table discloses by level the fair value hierarchy:

	Investment Assets at Fair Value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Common and collective trusts	\$ -	\$ 4,374,973	\$ -	\$ 4,374,973
Equity securities	2,876,653	-	-	2,876,653
Mutual funds - equities	351,362	1,999,994	-	2,351,356
Mutual funds - fixed income	-	646,138	-	646,138
Mutual funds - commodities	-	345,053	-	345,053
Mutual funds - real estate indexed	-	313,467	-	313,467
Corporate debt	-	1,991,904	-	1,991,904
Hedge fund	-	895,907	-	895,907
U.S. government securities	-	473,393	-	473,393
Venture capital	-	-	452,582	452,582
	\$ 3,228,015	\$ 11,040,829	\$ 452,582	\$ 14,721,426

	Investment Assets at Fair Value as of September 30, 2013			
	Level 1	Level 2	Level 3	Total
Common and collective trusts	\$ -	\$ 4,247,009	\$ -	\$ 4,247,009
Equity securities	2,728,916	-	-	2,728,916
Mutual funds - equities	136,653	1,787,759	-	1,924,412
Mutual funds - fixed income	-	592,922	-	592,922
Mutual funds - commodities	-	117,257	-	117,257
Mutual funds - real estate indexed	-	317,703	-	317,703
Corporate debt	-	1,791,729	-	1,791,729
Hedge fund	-	824,444	-	824,444
U.S. government securities	-	575,300	-	575,300
Venture capital	-	-	423,491	423,491
	\$ 2,865,569	\$ 10,254,123	\$ 423,491	\$ 13,543,183

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 3 - Investments (Continued)**

The Organization has the following Level 2 investments measured at fair value on a recurring basis utilizing net asset value per share:

- Common and Collective Trusts - Privately offered funds with an estimated fair value based on the net asset value per share of the investments of \$4,374,973 and \$4,247,009 as of September 30, 2014 and 2013, respectively. The net asset value is recalculated daily. There are no restrictions on redemptions. The primary objective of the funds is to provide capital appreciation and income through investments in global equity and fixed income investments.
- Mutual Funds - Funds with an estimated fair value based on the net asset value per share of the investments of \$3,304,652 and \$2,815,641 as of September 30, 2014 and 2013, respectively. The net asset value is recalculated daily. There are no restrictions on redemptions. The primary objective of the funds is to provide capital appreciation and income through investments in global equity, fixed income, natural resources and real estate investments.
- Hedge Fund - This privately offered fund of funds has an estimated fair value of \$895,907 and \$824,444 as of September 30, 2014 and 2013, respectively. This investment's value is calculated based on net asset value per share. Capital withdrawals are permitted at the end of each quarter with written notice 60 days prior to redemption. In general, redemptions of at least 95% of the amount being redeemed will be paid within 30 days after the redemption date and the balance paid after completion of the fund's fiscal year-end audit. The fund's objective is to achieve attractive risk-adjusted returns with low volatility through a diversified portfolio of assets including hedged equity, market independent, event driven and market dependent investments.

The Organization has a Level 3 investment in a venture capital fund. The principal purpose of the venture capital fund is to make investments in venture capital, buy-out and other private equity-oriented funds and managing and supervising these investments. The venture capital fund terminates on the twelfth anniversary of the effective date (February 1, 2007) or 120 days after the date that the last investment it holds has been liquidated. Determination of the fair value of investments is made by its management in accordance with its governing documents. Approaches used to value the investments include, but are not limited to, the market approach, discounting cash flows, valuing net assets and industry specific benchmarking.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 3 - Investments (Continued)**

The following table discloses the summary of changes in the fair value of the Level 3 investment asset:

	Venture Capital	
	2014	2013
Balance, beginning of year	\$ 423,491	\$ 388,151
Unrealized gains	120,441	35,340
Capital Calls	43,750	30,000
Distributions	(135,100)	(30,000)
Balance, end of year	<u>\$ 452,582</u>	<u>\$ 423,491</u>

Transfers in and transfers out are recognized as of the actual date of the event or change in circumstances that caused the transfer.

**Note 4 - Inventory**

Net inventory is composed of the following at September 30:

	2014	2013
Raw materials	\$ 5,140,813	\$ 3,714,564
Work-in-process	1,636,759	1,622,356
Finished goods	2,244,586	1,760,256
	<u>\$ 9,022,158</u>	<u>\$ 7,097,176</u>

**Note 5 - Employee Benefit Plans**

**Defined Benefit Pension Plan** - The Organization maintains a funded non-contributory defined benefit pension plan (the Plan) which covers certain employees. Effective December 31, 2008 the Plan was frozen to new participants. Participant benefits are primarily related to years of credited service and annual earnings.

Net periodic pension cost was \$110,705 and \$577,345 for the years ended September 30, 2014 and 2013, respectively. The Plan paid \$759,500 and \$648,370 in benefits to participants for the years ended September 30, 2014 and 2013, respectively.



**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5 - Employee Benefit Plans (Continued)**

Contributions to the Plan were \$500,000 and \$600,000 for the years ended September 30, 2014 and 2013, respectively. The Plan is on a calendar year basis and the Organization makes annual contributions in accordance with the applicable requirements of the Employee Retirement Security Act of 1974 (ERISA). The Organization had no non-cash contributions during the years ended September 30, 2014 and 2013, and has no expectation of future non-cash contributions.

The projected benefit obligation represents the present value of all benefits attributed to employee service rendered through the measurement dates, September 30, 2014 and 2013. Since the Plan was frozen on December 31, 2008, no assumptions are necessary about future compensation levels and therefore, the accumulated benefit obligation equals the projected benefit obligation.

The projected benefit obligation, the fair value of assets, and the funded status as of September 30 were as follows:

	<u>2014</u>	<u>2013</u>
Projected benefit obligation, end of year	\$ 22,550,223	\$ 20,887,824
Fair value of Plan assets	<u>20,642,577</u>	<u>19,301,746</u>
Net underfunded status	<u>\$ (1,907,646)</u>	<u>\$ (1,586,078)</u>

The net underfunded status of the Plan increased due to an increase in the projected benefit obligation that was partially offset by an increase in the fair value of Plan assets at September 30, 2014 compared to the previous measurement date of September 30, 2013. The increase in the projected benefit obligation is largely due to an update to the actuarial mortality assumptions as well as a change in the discount rate required to value said obligation under Financial Accounting Standards Board ASC Topic 715 and reflects the expected benefit payment stream using a pension curve spot rate as September 30, 2014. The projected benefit obligation is measured at a single point in time each fiscal year end. The increase in the fair value of Plan assets related to investment gains and contributions made to the Plan, offset in part by benefits paid out to Plan participants during the fiscal year. The Organization does not fully fund the Plan in order to manage the long term potential tax consequences that can result from significant year to year market volatility.

Included on the consolidated balance sheets in unrestricted net assets for the years ended September 30, 2014 and 2013 are \$5,379,255 and \$4,668,392, respectively, that represents the total unrecognized net actuarial loss and prior service cost. The net amount recognized on the consolidated balance sheets of \$1,907,646 and \$1,586,078 as of September 30, 2014 and 2013, respectively, represents the unfunded pension obligation which equals the net underfunded status. Although the Plan shows a net underfunded status as of September 30, 2014 and 2013, contributions for the Plan meet or exceed the minimum funding requirements as estimated by ERISA.

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**Note 5 - Employee Benefit Plans (Continued)**

Actuarial valuations are utilized to measure the projected benefit obligation of the Plan. The amount of benefits to be paid depends on a number of future events incorporated into a formula, including estimates of the life expectancy of employees/survivors, years of service rendered and future interest rates along with certain assumptions. The most significant assumptions applied include discount rates and the expected return on Plan assets that are reviewed, at minimum, on an annual basis. However, this is considered to be a long-term assumption and hence not anticipated to change annually unless there are significant changes in economic and market conditions. In developing the expected long-term rate of return on Plan assets, consideration is given to the target asset allocations of the Plan portfolio, as well as historical returns and future expectations for returns on various categories of Plan assets. The expected rate of return is analyzed based on historical long-term rates of return for various investment categories, as measured by appropriate indexes. The rates of return on these indexes are then weighted based upon the percentage of Plan assets in each applicable category to determine a composite expected return.

The following weighted average assumptions were used in the measurement of the Plan's benefit obligations at September 30:

	<u>2014</u>	<u>2013</u>
Discount rate	3.97%	4.50%
Expected return on Plan assets	6.75%	6.75%

The following tables illustrate the weighted average actual and target allocation of Plan assets at September 30:

	<u>Target %</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
Cash and cash equivalents	0-4%	2.10%	5.48%
Fixed income	10-28%	15.03%	16.37%
Equity securities	43-79%	69.09%	67.70%
Other	11-29%	13.78%	10.45%

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**Note 5 - Employee Benefit Plans (Continued)**

The following table discloses by level the fair value hierarchy of the Plan assets as defined in Note 3 at September 30:

Asset Type	2014	2013	Fair Value Hierarchy Level
Common and collective trusts	\$ 8,367,648	\$ 10,562,032	2
Mutual funds - equities	3,753,518	678,828	2
Mutual funds - fixed income	958,040	920,469	2
Mutual funds - commodities	717,787	208,412	2
Equity securities	2,752,297	2,243,822	1
Fixed income	1,637,203	1,547,329	2
Hedge fund	1,514,615	1,393,799	2
U.S. government securities	507,746	689,304	2
Cash and cash equivalents	433,723	1,057,751	1
	\$ 20,642,577	\$ 19,301,746	

The primary objective for the investments of the Plan is to provide for long-term growth of capital without undue exposure to risk. This is accomplished by utilizing a strategy of common and collective trusts, domestic equities, fixed income and other investments in a diversified mix that is conducive to participation in a rising market, while allowing for adequate protection in a falling market. Investment managers have sole discretion to make investment decisions, within the scope of the investment policy approved by the Board. Disciplined risk management is expected to produce returns over time consistent with the portfolio's objectives. The Organization's management and Board designated investment committee review reports of actual Plan performance provided by independent third parties at least twice annually.

Future benefit payments are as follows at September 30:

Expected Future Benefit Payments	
2015	\$ 991,816
2016	\$ 982,197
2017	\$ 1,074,681
2018	\$ 1,131,894
2019	\$ 1,144,127
2020 through 2024	\$ 6,068,830

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**Note 5 - Employee Benefit Plans (Continued)**

**Tax-Deferred Annuity Plan** - The Organization offers a tax-deferred annuity plan for all employees who meet certain eligibility requirements. Participants may contribute up to 50% of their annual compensation. The Organization makes contributions to the annuity plan up to 6% of employee compensation. Contributions under the annuity plan by the Organization totaled \$1,013,778 and \$939,105 for the years ended September 30, 2014 and 2013, respectively.

**Note 6 - Property, Plant and Equipment**

Property, plant and equipment consist of the following at September 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 2,040,912	\$ 2,040,912
Buildings and improvements	18,894,852	15,572,976
Machinery and equipment	<u>25,242,173</u>	<u>24,760,687</u>
	46,177,937	42,374,575
Less accumulated depreciation	<u>29,049,373</u>	<u>25,855,259</u>
	<u>\$ 17,128,564</u>	<u>\$ 16,519,316</u>

**Note 7 - Long-Term Debt**

Long-term debt consists of the following at September 30:

	<u>2014</u>	<u>2013</u>
Note payable to bank, five year term, collateralized by real estate, interest at 2.99%, interest payments required monthly, principal payments of \$200,000 due annually beginning on April 15, 2014, remaining principal due April 2018.	\$ 4,800,000	\$ 5,000,000
Less current portion	<u>200,000</u>	<u>200,000</u>
	<u>\$ 4,600,000</u>	<u>\$ 4,800,000</u>

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**Note 7 - Long-Term Debt (Continued)**

Future maturities of long-term debt are:

<u>Years Ending September 30,</u>	
2015	\$ 200,000
2016	200,000
2017	200,000
2018	<u>4,200,000</u>
	<u>\$ 4,800,000</u>

**Note 8 - Employee and Community Services Center**

The Employee and Community Services Center (ECS Center), a division of the Organization, provides mission related support and services such as evaluation, orientation, mobility, communication and basic education skills training to blind, Deaf-Blind and multi-disabled blind adults. The goal of this training is to enable persons who are blind to be independent and economically self-sufficient.

All bequests, contributions and charitable trust distributions that are restricted by the donor for the benefit of disabled individuals are allocated to the ECS Center and utilized in the period they are received.

An allocation of various expenses (e.g., heat, electricity and telephone) to the ECS Center's operations is based on estimates by management.

Below is a schedule of support and revenue, and expenses of the ECS Center for the years ended September 30:

	<u>2014</u>	<u>2013</u>
Support and revenue		
State and local government funding	\$ 198,497	\$ 216,338
Other	<u>154,756</u>	<u>178,366</u>
	<u>353,253</u>	<u>394,704</u>
Expenses		
Salaries and related expenses	1,389,569	1,381,970
Administrative expenses	817,603	800,358
Deaf-Blind retreat	<u>92,848</u>	<u>109,175</u>
	<u>2,300,020</u>	<u>2,291,503</u>
Excess of employee and community services expenses over support and revenue	<u>\$ (1,946,767)</u>	<u>\$ (1,896,799)</u>

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**Note 9 - Impairment of Property, Plant and Equipment**

The Organization recorded an impairment charge of \$1,230,115 for the year ended September 30, 2014. The impairment charge related to equipment associated with a specific product line that has become unprofitable due to a change in customer direction and diminishing demand. The impaired equipment has been determined to have no resale value.

No impairment charge was recognized for the year ended September 30, 2013.

**Note 10 - Bequests, Contributions, Grants and Charitable Trust Distributions**

The Organization is the beneficiary of specific bequests and contributions each year, as well as a portion of the income earned from several charitable trust funds. Such trust funds are not recorded in the accompanying consolidated financial statements. These funds are held and managed by trustees under discretionary trust agreements and distributions of cash are recorded only when received.

**Note 11 - The Foundation**

The Foundation was established as a supporting organization to the Lighthouse. The Foundation's purpose is to support the mission of the Lighthouse, which is to create and enhance opportunities for independence and self-sufficiency of people who are blind, Deaf-Blind and blind with other disabilities.

The financial position and the financial activities of the Foundation, which are included in the accompanying consolidated financial statements, are as follows as of and for the years ended September 30:

	<u>2014</u>	<u>2013</u>
Cash and investments	\$ 4,434,196	\$ 3,882,872
Unrestricted net assets	<u>\$ 4,434,196</u>	<u>\$ 3,882,872</u>
Net assets at beginning of year	\$ 3,882,872	\$ 3,670,178
Contributions received, including in-kind	1,447,329	1,193,644
Interest income	67,209	65,447
Realized gain on investments, net	71,277	62,375
Unrealized gain on investments, net	261,822	252,966
Contribution to the Lighthouse	(751,357)	(681,845)
In-kind expense	(96,134)	(120,832)
Other expenses	(1,991)	(84,310)
Operating expenses allocated from Lighthouse	<u>(446,832)</u>	<u>(474,751)</u>
Net assets at end of year	<u>\$ 4,434,196</u>	<u>\$ 3,882,872</u>

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**Note 11 - The Foundation (Continued)**

Contributions received by the Foundation include cash and in-kind charitable giving. Unrestricted funds received are primarily used to support employee and community service programs. Expenses incurred by the Foundation include allocations of personnel and facilities costs from the Lighthouse, as well as expenses relating to donor acquisition and in-kind contribution expense related to contributed goods and services. All necessary eliminations have been included in the consolidated financial statements.

**Note 12 - Concentrations**

**Dependence on Customers** - During the years ended September 30, 2014 and 2013, 53% and 57% of sales were to four customers, respectively. At September 30, 2014 and 2013, 63% and 74%, respectively, of accounts receivable was due from these customers.