Report of Independent Auditors and
Consolidated Financial Statements for

# The Lighthouse for the Blind, Incorporated and its Foundation

September 30, 2012 and 2011

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of The Lighthouse for the Blind, Incorporated and its Foundation (the Organization) as of September 30, 2012 and 2011, and the related consolidated statements of activities and changes in unrestricted net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization at September 30, 2012 and 2011, and consolidated changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Seattle, Washington
February 25, 2013

# THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
# AND ITS FOUNDATION
## CONSOLIDATED BALANCE SHEETS
## SEPTEMBER 30, 2012 AND 2011

### ASSETS

| | 2012 | 2011 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 9,115,745 | $ 9,036,195 |
| Accounts receivable, net of allowance for doubtful accounts of $365,000 and $450,000, respectively | 3,264,182 | 3,656,998 |
| Other receivables | 335,094 | 213,410 |
| Inventory, net of reserve of $565,335 and $711,481 respectively | 7,099,827 | 6,155,794 |
| Other assets | 118,190 | 134,301 |
| Total current assets | 19,933,038 | 19,196,698 |
| INVESTMENTS | 12,457,291 | 11,221,070 |
| PROPERTY, PLANT AND EQUIPMENT, net | 15,187,282 | 14,351,647 |
| | $ 47,577,611 | $ 44,769,415 |

### LIABILITIES AND UNRESTRICTED NET ASSETS

| | 2012 | 2011 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ 3,610,587 | $ 3,952,422 |
| Deferred revenue | 176,795 | 239,699 |
| Accrued vacation and sick leave | 1,057,732 | 950,746 |
| Other liabilities | 167,980 | 93,091 |
| Total current liabilities | 5,013,094 | 5,235,958 |
| UNFUNDED PENSION OBLIGATION | 6,264,360 | 6,961,300 |
| Total liabilities | 11,277,454 | 12,197,258 |
| UNRESTRICTED NET ASSETS | | |
| Unrestricted | 23,153,190 | 21,050,774 |
| Board designated | 13,146,967 | 11,521,383 |
| | 36,300,157 | 32,572,157 |
| | $ 47,577,611 | $ 44,769,415 |

See accompanying notes.

## THE LIGHTHOUSE FOR THE BLIND, INCORPORATED AND ITS FOUNDATION

### CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS

### YEARS ENDED SEPTEMBER 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| NET SALES | $ 54,353,137 | $ 51,051,180 |
| COST OF SALES | 42,843,057 | 40,004,673 |
| | 11,510,080 | 11,046,507 |
| COSTS AND EXPENSES | | |
| Warehouse and shipping | 795,353 | 747,332 |
| Selling | 223,877 | 211,002 |
| Administrative | 7,143,429 | 6,810,117 |
| Provision for doubtful accounts (recoveries) | (81,660) | 105,254 |
| | 8,080,999 | 7,873,705 |
| INCOME FROM MANUFACTURING AND BASE SUPPLY OPERATIONS | 3,429,081 | 3,172,802 |
| OTHER INCOME (EXPENSE) | | |
| Investment return | 1,838,042 | (322,013) |
| Excess of employee and community services expenses over support and revenue | (1,950,413) | (1,942,428) |
| Other expense, net | (993,576) | (1,012,181) |
| Bequests, contributions, grants and charitable trust distributions | 1,251,513 | 1,629,357 |
| | 145,566 | (1,647,265) |
| OPERATING INCOME | 3,574,647 | 1,525,537 |
| PENSION BENEFIT OBLIGATION ADJUSTMENT | 153,353 | (2,176,714) |
| CHANGE IN UNRESTRICTED NET ASSETS | 3,728,000 | (651,177) |
| UNRESTRICTED NET ASSETS | | |
| Beginning of year | 32,572,157 | 33,223,334 |
| End of year | $ 36,300,157 | $ 32,572,157 |



See accompanying notes.

# THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
# AND ITS FOUNDATION
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED SEPTEMBER 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Change in unrestricted net assets | $ 3,728,000 | $ (651,177) |
| Adjustments to reconcile change in unrestricted net assets to cash provided by operating activities | | |
| Depreciation | 1,613,362 | 1,492,205 |
| Realized and unrealized (gain) loss on investments, net | (1,579,823) | 569,240 |
| Loss on sale of property, plant and equipment | 77,332 | - |
| Change in allowance for doubtful accounts | (85,000) | 115,000 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 477,816 | (1,189,916) |
| Other receivables | (121,684) | (67,520) |
| Inventory | (944,033) | 114,238 |
| Other assets | 16,111 | 48,829 |
| Liabilities | (222,864) | (79,430) |
| Unfunded pension obligation | (696,940) | 2,671,036 |
| | 2,262,277 | 3,022,505 |
| INVESTING ACTIVITIES | | |
| Purchases of investments | (8,309,915) | (5,456,511) |
| Proceeds from sale of investments | 8,653,517 | 5,127,976 |
| Purchases of property, plant and equipment | (2,556,329) | (1,369,983) |
| Proceeds from sale of property, plant and equipment | 30,000 | - |
| | (2,182,727) | (1,698,518) |
| CHANGE IN CASH AND CASH EQUIVALENTS | 79,550 | 1,323,987 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 9,036,195 | 7,712,208 |
| End of year | $ 9,115,745 | $ 9,036,195 |

See accompanying notes.

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

**Operations** - The Lighthouse for the Blind, Incorporated and its Foundation (the Lighthouse) 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. It is comprised of Lighthouse for the Blind, Inc., and The Seattle Lighthouse for the Blind Foundation (the Foundation).

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 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, 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.

- 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.

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

At September 30, 2012 and 2011, 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 balance 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. The Organization places its short-term investments with financial institutions and, by policy, limits the amount of exposure to any one financial institution, equity issuer, or industry group.

**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. 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.

**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 15 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.

**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, 2012 and 2011.

**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.

**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, 2012 and 2011 was $73,566 and $73,502, respectively. Fund-raising expenses were 6% and 5% of the total contribution revenue for the years ended September 30, 2012 and 2011, respectively. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

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

**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, 2012 and 2011. 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, 2012 and 2011, 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 2009 for its federal filings.

**Use of Estimates -** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Fair Value of Financial Instruments -** As of September 30, 2012 and 2011, 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. Carrying value of investments approximate fair value as discussed in Note 3.

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

**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 February 25, 2013, 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:

| | 2012 | 2011 |
|---|---|---|
| Beginning balance as of October 1 | $ 450,000 | $ 335,000 |
| Adjustments to allowance for doubtful accounts | (81,660) | 105,254 |
| Charges and bad debt write-offs (recoveries) against the allowance | (3,340) | 9,746 |
| | $ 365,000 | $ 450,000 |

**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, 2012 and 2011 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).

**Note 3 - Investments (Continued)**

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 mutual funds, equity securities, and commodities 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, corporate debt, U.S. government securities and a hedge fund. The hedge fund and collective investment trusts (which are included within common and collective trusts) 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 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.

**Note 3 - Investments (Continued)**

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:

| | 2012 | 2011 |
|---|---|---|
| Common and collective trusts | $ 4,589,870 | $ 3,158,090 |
| Domestic equity securities | 2,666,107 | 3,121,319 |
| Corporate debt | 1,797,393 | 1,723,344 |
| U.S. government securities | 766,809 | 1,229,400 |
| Hedge fund | 754,724 | 738,456 |
| Mutual funds - domestic | 553,562 | 529,742 |
| Mutual fund - real estate indexed | 553,343 | 228,780 |
| Venture capital | 388,151 | 275,460 |
| Commodities | 387,332 | 216,479 |
| | $ 12,457,291 | $ 11,221,070 |

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 following summarizes the investment return at September 30:

| | 2012 | 2011 |
|---|---|---|
| Dividends and interest | $ 258,219 | $ 247,227 |
| Realized gain, net | 713,512 | 801,964 |
| Unrealized gain (loss), net | 866,311 | (1,371,204) |
| | $ 1,838,042 | $ (322,013) |

**Note 3 - Investments (Continued)**

The following table discloses by level the fair value hierarchy:

| | Investment Assets at Fair Value as of September 30, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Common and collective trusts | $ - | $ 4,589,870 | $ - | $ 4,589,870 |
| Domestic equity securities | 2,666,107 | - | - | 2,666,107 |
| Corporate debt | - | 1,797,393 | - | 1,797,393 |
| U.S. government securities | - | 766,809 | - | 766,809 |
| Hedge fund | - | 754,724 | - | 754,724 |
| Mutual funds - domestic | 553,562 | - | - | 553,562 |
| Mutual fund - real estate indexed | 553,343 | - | - | 553,343 |
| Venture capital | - | - | 388,151 | 388,151 |
| Commodities | 387,332 | - | - | 387,332 |
| | $ 4,160,344 | $ 7,908,796 | $ 388,151 | $ 12,457,291 |

| | Investment Assets at Fair Value as of September 30, 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Common and collective trusts | $ - | $ 3,158,090 | $ - | $ 3,158,090 |
| Domestic equity securities | 3,121,319 | - | - | 3,121,319 |
| Corporate debt | - | 1,723,344 | - | 1,723,344 |
| U.S. government securities | - | 1,229,400 | - | 1,229,400 |
| Hedge fund | - | 738,456 | - | 738,456 |
| Mutual funds - domestic | 529,742 | - | - | 529,742 |
| Mutual fund - real estate indexed | 228,780 | - | - | 228,780 |
| Venture capital | - | - | 275,460 | 275,460 |
| Commodities | 216,479 | - | - | 216,479 |
| | $ 4,096,320 | $ 6,849,290 | $ 275,460 | $ 11,221,070 |

**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 Investment Trusts - Included in Common and Collective Trusts, are privately offered funds with an estimated fair value based on the net asset value per share of the investments of $1,402,361 and $1,332,166 as of September 30, 2012 and 2011, respectively. The net asset value is recalculated weekly. Redemption requires notification three days before the sale date, but otherwise has no restrictions. The primary objective of the funds is to provide investment results that exceed, over time and on a risk-adjusted basis, the overall performance of an index commonly used to represent the non US equity markets.

- Hedge Fund - This privately offered fund of funds has an estimated fair value of $754,724 and $738,456, as of September 30, 2012 and 2011, 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 following table discloses the summary of changes in the fair value of the Level 3 investment asset:

| | Venture Capital | |
|---|---|---|
| | 2012 | 2011 |
| Balance, beginning of year | $ 275,460 | $ 156,124 |
| Unrealized gains | 20,191 | 34,336 |
| Purchases, settlements and dispositions | 92,500 | 85,000 |
| Balance, end of year | $ 388,151 | $ 275,460 |

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:

| | 2012 | 2011 |
|---|---|---|
| Raw materials | $ 3,812,230 | $ 3,477,752 |
| Work-in-process | 1,654,058 | 1,267,178 |
| Finished goods | 1,633,539 | 1,410,864 |
| | $ 7,099,827 | $ 6,155,794 |

**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 $877,810 and $569,322 for the years ended September 30, 2012 and 2011, respectively. The Plan paid $649,495 and $597,849 in benefits to participants for the years ended September 30, 2012 and 2011, respectively.

Contributions to the Plan were $1,421,397 and $75,000 for the years ended September 30, 2012 and 2011, 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) as well as in conjunction with its funding policy to contribute annually an amount equal to the normal cost of the Plan. The Organization had no non-cash contributions during the years ended September 30, 2012 and 2011, 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, 2012 and 2011. 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.

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

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

| | 2012 | 2011 |
|---|---|---|
| Projected benefit obligation, end of year | $ 23,346,150 | $ 20,754,742 |
| Fair value of Plan assets | 17,081,790 | 13,793,442 |
| Net underfunded status | $ (6,264,360) | $ (6,961,300) |

The net underfunded status of the Plan decreased primarily due to an increase in the fair value of Plan assets at September 30, 2012 compared to the previous measurement date of September 30, 2011. The increase in the fair value of Plan assets related to investment gains and contributions made to the Plan. This was offset by a higher projected benefit obligation driven by market fluctuations in the discount rate required to value the projected benefit obligation and measured at a single point in time each fiscal year end. 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, 2012 and 2011 are $9,324,019 and $9,477,372, respectively, that represents the total unrecognized net actuarial loss and prior service cost. The net amount recognized on the consolidated balance sheets of $6,264,360 and $6,961,300 as of September 30, 2012 and 2011, respectively, represents the unfunded pension obligation which equals the net underfunded status. Funding of pension plans generally does not occur at the same time as pension expense is recorded. Although the Plan shows a net underfunded status as of September 30, 2012 and 2011, contributions for the Plan meet or exceed the minimum funding requirements as estimated by ERISA.

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.

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

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

| | 2012 | 2011 |
|---|---|---|
| Discount rate | 3.59% | 4.45% |
| 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:

| | Target % | 2012 Actual | 2011 Actual |
|---|---|---|---|
| Cash and cash equivalents | 2-10% | 3.23% | 4.70% |
| Fixed income | 22-40% | 18.82% | 28.60% |
| Equities | 35-70% | 60.79% | 55.42% |
| Other | 0-20% | 17.16% | 11.28% |

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

| Asset Type | 2012 | 2011 | Fair Value Hierarchy Level |
|---|---|---|---|
| Common and collective trusts | $ 11,047,693 | $ 5,049,259 | 2 |
| Domestic equities | 1,965,807 | 2,718,735 | 1 |
| Fixed income | 1,508,560 | 1,646,194 | 2 |
| Hedge fund | 1,275,930 | 950,537 | 2 |
| U.S. government securities | 767,213 | 1,220,007 | 2 |
| Mutual funds | 516,587 | 2,208,710 | 1 |
| | $ 17,081,790 | $ 13,793,442 | |

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 equities, fixed income securities, cash equivalents 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 twice annually.

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

Future benefit payments are as follows at September 30:

| Expected future benefit payments | | |
|---|---|---|
| 2013 | $ | 877,304 |
| 2014 | $ | 876,238 |
| 2015 | $ | 876,494 |
| 2016 | $ | 928,001 |
| 2017 | $ | 1,018,396 |
| 2018 through 2022 | $ | 5,655,967 |

**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 $996,178 and $697,357 for the years ended September 30, 2012 and 2011, respectively.

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

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

| | 2012 | 2011 |
|---|---|---|
| Land | $ 2,154,274 | $ 2,154,274 |
| Buildings and improvements | 13,428,205 | 13,337,630 |
| Machinery and equipment | 23,683,214 | 21,338,968 |
| | 39,265,693 | 36,830,872 |
| Less accumulated depreciation | 24,078,411 | 22,479,225 |
| | $ 15,187,282 | $ 14,351,647 |

**Note 7 - 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.

**Note 7 - Employee and Community Services Center (Continued)**

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:

| | 2012 | 2011 |
|---|---|---|
| Support and revenue | | |
| State and local government funding | $ 217,311 | $ 212,940 |
| Other | 181,408 | 83,512 |
| | 398,719 | 296,452 |
| Expenses | | |
| Salaries and related expenses | 1,444,745 | 1,424,756 |
| Administrative expenses | 803,374 | 736,330 |
| Deaf-Blind retreat | 101,013 | 77,794 |
| | 2,349,132 | 2,238,880 |
| Excess of employee and community services expenses over support and revenue | $ (1,950,413) | $ (1,942,428) |

**Note 8 - 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 9 - 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.

**Note 9 - The Foundation (Continued)**

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:

| | 2012 | 2011 |
|---|---|---|
| Cash and investments | $ 3,670,178 | $ 3,216,019 |
| Unrestricted net assets | $ 3,670,178 | $ 3,216,019 |
| Net assets at beginning of year | $ 3,216,019 | $ 2,875,235 |
| Contributions received, including in-kind | 1,251,513 | 1,629,357 |
| Interest income | 58,627 | 49,912 |
| Realized gain on investments, net | 299,873 | 103,059 |
| Unrealized gain (loss) on investments, net | 131,410 | (193,409) |
| Contribution to the Lighthouse | (680,513) | (567,691) |
| In-kind expense | (129,476) | (235,848) |
| Operating expenses allocated from Lighthouse | (477,275) | (444,596) |
| Net assets at end of year | $ 3,670,178 | $ 3,216,019 |

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 10 - Credit Risk Concentration and Other Concentration**

**Concentration of Credit Risk -** Financial instruments that potentially subject the Organization to concentrations of credit risk include deposits with financial institutions. The Organization places its deposits with major financial institutions. However, at times, deposits may exceed the federally insured limits.

**Dependence on Customers -** During both of the years ended September 30, 2012 and 2011, 48% of sales were to three customers. At September 30, 2012 and 2011, 62% and 59%, respectively, of trade accounts receivable was due from these customers.