Report of Independent Auditors and
Consolidated Financial Statements for

The Lighthouse for the Blind, Incorporated and its Foundation

September 30, 2016 and 2015

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

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, 2016 and 2015, 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, 2016 and 2015, and the 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 17, 2017

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

ASSETS

	September 30, 2016	September 30, 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 7,762,885	$ 10,745,473
Accounts receivable, net of allowance for doubtful accounts of $365,000	5,615,509	4,674,895
Other receivables	856,446	194,652
Inventory, net of reserve of $722,500 and $702,700, respectively	17,291,702	10,910,039
Other assets	559,339	126,654
Total current assets	32,085,881	26,651,713
INVESTMENTS	15,102,701	14,166,481
PROPERTY, PLANT AND EQUIPMENT, net	18,793,066	17,073,912
	$ 65,981,648	$ 57,892,106

LIABILITIES AND UNRESTRICTED NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 6,347,057	$ 6,631,044
Deferred revenue	8,333,804	134,121
Accrued paid time off	1,029,687	1,004,699
Other liabilities	68,398	17,785
Current portion of long-term debt	200,000	200,000
Total current liabilities	15,978,946	7,987,649
UNFUNDED PENSION OBLIGATION	5,865,431	3,832,218
LONG-TERM DEBT, net of current portion	3,700,000	3,900,000
Total liabilities	25,544,377	15,719,867
UNRESTRICTED NET ASSETS		
Unrestricted	24,945,209	27,581,302
Board designated	15,492,062	14,590,937
	40,437,271	42,172,239
	$ 65,981,648	$ 57,892,106

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, 2016	2015
NET SALES	$ 75,791,707	$ 68,182,215
COST OF SALES	65,138,306	56,160,009
	10,653,401	12,022,206
COSTS AND EXPENSES		
Warehouse and shipping	930,143	794,892
Selling	231,792	205,238
Administrative	9,412,243	8,280,469
Provision for doubtful accounts (recoveries)	-	(8,489)
	10,574,178	9,272,110
INCOME FROM MANUFACTURING AND SERVICE BUSINESSES	79,223	2,750,096
OTHER INCOME (EXPENSE)		
Investment return	1,382,830	(633,942)
Excess of employee and community services expenses over support and revenue	(2,298,576)	(1,979,593)
Other expense, net	(717,186)	(525,320)
Bequests, contributions, grants and charitable trust distributions	1,789,397	1,295,297
	156,465	(1,843,558)
OPERATING INCOME	235,688	906,538
PENSION BENEFIT OBLIGATION ADJUSTMENT	(1,970,656)	(2,367,194)
CHANGE IN UNRESTRICTED NET ASSETS	(1,734,968)	(1,460,656)
UNRESTRICTED NET ASSETS		
Beginning of year	42,172,239	43,632,895
End of year	$ 40,437,271	$ 42,172,239

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

	Years Ended September 30, 2016	2015
OPERATING ACTIVITIES		
Change in unrestricted net assets	$ (1,734,968)	$ (1,460,656)
Adjustments to reconcile change in unrestricted net assets to cash provided by operating activities		
Depreciation	1,983,497	1,855,303
Change in inventory reserve	19,800	110,539
Realized and unrealized (gain) loss on investments, net	(1,098,330)	923,600
Unfunded pension obligation, net	2,033,213	1,924,572
(Gain)on sale/disposal of property, plant and equipment	(10,338)	(1,400)
Changes in operating assets and liabilities		
Accounts receivable	(940,614)	304,352
Other receivables	(661,794)	(74,971)
Inventory	(6,401,463)	(1,998,420)
Other assets	(432,685)	26,556
Liabilities	7,991,297	2,101,635
Net cash provided by operating activities	747,615	3,711,110
INVESTING ACTIVITIES		
Purchases of investments	(1,660,434)	(6,876,897)
Proceeds from sale of investments	1,822,543	6,508,243
Purchases of property, plant and equipment	(3,702,812)	(1,800,651)
Proceeds from sale of property, plant and equipment	10,500	1,400
Net cash used in investing activities	(3,530,203)	(2,167,905)
FINANCING ACTIVITIES		
Principal repayments of long-term debt	(200,000)	(700,000)
CHANGE IN CASH AND CASH EQUIVALENTS	(2,982,588)	843,205
CASH AND CASH EQUIVALENTS		
Beginning of year	10,745,473	9,902,268
End of year	$ 7,762,885	$ 10,745,473
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 122,093	$ 134,147

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 Summerville, South Carolina. The Lighthouse operates base supply centers 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.
- Providing contract closure services 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 accounting principles generally accepted in the United States of America (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, 2016 and 2015, 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 2, 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 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.

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, 2016 and 2015.

Deferred revenue - Deferred revenue consists of customer prepayments for sales of manufactured goods and base supply center items, as detailed in Note 6. 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, 2016 and 2015 was $98,725 and $89,010, respectively. Fund-raising expenses were 6% and 7% of the total contribution revenue for the years ended September 30, 2016 and 2015, 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 material unrelated business income tax for the years ended September 30, 2016 and 2015. 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.

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

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, 2016 and 2015, the Organization had no uncertain tax positions requiring accrual. The Organization files an exempt organization return in the U.S. federal jurisdiction.

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.

Fair value of financial instruments - As of September 30, 2016 and 2015, 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, other receivables, 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.

Recent accounting pronouncement – In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient (NAV practical expedient). ASU 2015-07 has been adopted for the year ended September 30, 2016; however, the retrospective approach requires that an investment for which fair value is measured using a NAV practical expedient be removed from the fair value hierarchy in all periods presented in the financial statements. Accordingly, the investment disclosures in Note 2 and Note 4 have been modified as of September 30, 2015 as well.

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.

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 March 17, 2017, which is the date the consolidated financial statements were issued.

Note 2 - 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, 2016 and 2015 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.

Note 2 - Investments (Continued)

Investments in common trusts, mutual funds, and 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 corporate debt, and U.S. government securities.

An investment in a hedge fund, uses net asset value (NAV) as a practical expedient for valuation. Under GAAP this investment is collectively excluded from the fair value hierarchy and disclosed as a reconciling item to investments.

The venture capital investment is classified within Level 3. The managers and trustees of the venture capital investment generally value their underlying investments at 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:

	2016	2015
Common trusts	$ 5,506,710	$ 5,023,235
Mutual funds - equities	3,961,382	3,564,491
Corporate debt	1,889,925	1,928,461
Equity securities	1,273,907	1,170,892
Hedge fund	962,489	914,445
Mutual funds - fixed income	651,213	618,029
Venture capital	349,457	426,037
Mutual funds - real estate indexed	321,607	302,781
U.S. government securities	186,011	218,110
	$ 15,102,701	$ 14,166,481

Note 2 - Investments (Continued)

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:

	2016	2015
Dividends and interest	$ 284,500	$ 289,658
Realized gain, net	33,592	1,195,131
Unrealized gain (loss), net	1,064,738	(2,118,731)
	$ 1,382,830	$ (633,942)

The following table discloses by level the fair value hierarchy:

	Investment Assets at Fair Value as of September 30, 2016			
	Level 1	Level 2	Level 3	Total
Common trusts	$ 5,506,710	$ -	$ -	$ 5,506,710
Mutual funds - equities	3,961,382	-	-	3,961,382
Corporate debt	-	1,889,925	-	1,889,925
Equity securities	1,273,907	-	-	1,273,907
Mutual funds - fixed income	651,213	-	-	651,213
Venture capital	-	-	349,457	349,457
Mutual funds - real estate indexed	321,607	-	-	321,607
U.S. government securities	-	186,011	-	186,011
Total assets in the fair value hierarchy	$ 11,714,819	$ 2,075,936	$ 349,457	14,140,212
Investments measured at NAV (practical expedient)				962,489
				$ 15,102,701

Note 2 - Investments (Continued)

	Investment Assets at Fair Value as of September 30, 2015			
	Level 1	Level 2	Level 3	Total
Common trusts	$ 5,023,235	$ -	$ -	$ 5,023,235
Mutual funds - equities	3,564,491	-	-	3,564,491
Corporate debt	-	1,928,461	-	1,928,461
Equity securities	1,170,892	-	-	1,170,892
Mutual funds - fixed income	618,029	-	-	618,029
Venture capital	-	-	426,037	426,037
Mutual funds - real estate indexed	302,781	-	-	302,781
U.S. government securities	-	218,110	-	218,110
Total assets in the fair value hierarchy	$ 10,679,428	$ 2,146,571	$ 426,037	13,252,036
Investments measured at NAV (practical expedient)				914,445
				$ 14,166,481

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

- Hedge Fund – This privately offered fund of funds has an estimated fair value of $962,489 and $914,445 as of September 30, 2016 and 2015, 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 the fund's 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.

Note 2 - Investments (Continued)

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

	Venture Capital	
	2016	2015
Balance, beginning of year	$ 426,037	$ 452,582
Unrealized gains	19,320	71,855
Capital calls	19,600	24,250
Distributions	(115,500)	(122,650)
Balance, end of year	$ 349,457	$ 426,037

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

Note 3 - Inventory

Net inventory is composed of the following at September 30:

	2016	2015
Raw materials	$ 3,798,327	$ 5,689,333
Work-in-process	3,108,229	3,184,651
Finished goods	10,385,146	2,036,055
	$ 17,291,702	$ 10,910,039

Note 4 - 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. Any increases in the earnings of participants, subsequent to the date the Plan was frozen, do not affect the calculation of participant benefits.

Net periodic pension cost was $562,557 and $57,378 for the years ended September 30, 2016 and 2015, respectively. The Plan paid $838,824 and $791,121 in benefits to participants for the years ended September 30, 2016 and 2015, respectively.

Note 4 - Employee Benefit Plans (Continued)

Contributions to the Plan were $500,000 for the years ended September 30, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015. 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:

	2016	2015
Projected benefit obligation, end of year	$ 26,473,343	$ 22,931,059
Fair value of Plan assets	20,607,912	19,098,841
Net underfunded status	$ (5,865,431)	$ (3,832,218)

The net underfunded status of the Plan increased primarily due to an increase in the projected benefit obligation at September 30, 2016 compared to the previous measurement date of September 30, 2015. The increase in the fair value of Plan assets related to investment gains and contributions made to the Plan, offset by benefits paid out to Plan participants during the fiscal year.

The increase in projected benefit obligation related to changes in actuarial assumptions, principally a reduction in the discount rate (as noted in the table on page 16) and an update to the mortality table. 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, 2016 and 2015 are $9,717,105 and $7,746,449, respectively, that represents the total unrecognized net actuarial loss and prior service cost. The net amount recognized on the consolidated balance sheets of $5,865,431 and $3,832,218 as of September 30, 2016 and 2015, respectively, represents the unfunded pension obligation which equals the net underfunded status. Although the Plan shows a net underfunded status as of September 30, 2016 and 2015, contributions for the Plan meet or exceed the minimum funding requirements as estimated by ERISA.

Note 4 - 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:

	2016	2015
Discount rate	3.22%	3.92%
Expected return on Plan assets	6.40%	6.40%

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

	Target %	2016 Actual	2015 Actual
Cash and cash equivalents	0-4%	4.12%	3.00%
Fixed income	33-57%	38.64%	27.58%
Equity securities	21-56%	45.98%	58.38%
Other	10-28%	11.27%	11.04%

Note 4 - Employee Benefit Plans (Continued)

The following table discloses by level the fair value hierarchy of the Plan assets as defined in Note 2 at September 30:

Asset Type	2016	2015	Fair Value Hierarchy Level
Common and collective trusts	$ 8,526,621	$ 6,422,373	1
Equity securities	3,017,554	2,638,812	1
Mutual funds - equities	2,908,614	4,289,759	1
Fixed income	1,823,796	2,021,310	2
Mutual funds - fixed income	1,232,261	1,180,767	1
Cash and cash equivalents	837,411	573,089	1
U.S. government securities	370,113	424,019	2
Corporate debt	261,463	-	2
Total plan assets in the fair value hierarchy	18,977,833	17,550,130	
Plan assets measured at NAV (practical expedient)	1,630,079	1,548,711	
	$ 20,607,912	$ 19,098,841	

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 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.

Projected future benefit payments including retired, vested terminated and active employees are as follows at September 30:

Expected Future Benefit Payments	
2017	$ 1,216,942
2018	$ 1,218,674
2019	$ 1,229,787
2020	$ 1,267,894
2021	$ 1,294,792
2022 through 2026	$ 6,546,269

Note 4 - 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 100% of their annual eligible compensation. The Organization makes contributions to the annuity plan up to 6% of employee compensation. Contributions under the annuity plan by the Organization totaled $1,298,653 and $1,164,416 for the years ended September 30, 2016 and 2015, respectively.

Note 5 - Property, Plant and Equipment

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

	2016	2015
Land	$ 2,655,599	$ 2,040,912
Buildings and improvements	20,589,589	19,115,758
Machinery and equipment	28,357,145	26,787,919
	51,602,332	47,944,589
Less accumulated depreciation	32,809,267	30,870,677
	$ 18,793,066	$ 17,073,912

Note 6 - Deferred Revenue

Deferred revenue is composed of the following at September 30:

	2016	2015
Manufactured goods	$ 8,097,895	$ -
Base supply centers	235,909	134,121
	$ 8,333,804	$ 134,121

Deferred revenue for manufactured goods at September 30, 2016 represented sales to one customer, for which finished goods inventory held for shipment totaled $6,537,006. As of the date of the issuance of the consolidated financial statements, all inventory related to deferred revenue was shipped and deferred revenue of $8,333,804 was recognized.

Note 7 - Long-Term Debt

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

	2016	2015
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.	$ 3,900,000	$ 4,100,000
Less current portion	200,000	200,000
	$ 3,700,000	$ 3,900,000

Future maturities of long-term debt are:

Years Ending September 30,	
2017	$ 200,000
2018	3,700,000
	$ 3,900,000

In April 2016, the Organization entered into a line of credit agreement with the same bank in the amount of $5,000,000 for short-term borrowings, which renews annually in April. The line of credit allows for advances at a variable interest rate, based on the LIBOR rate plus 140 basis points. The agreement contains the same covenant requirements as the long-term debt agreement. There were no borrowings outstanding on the line of credit as of September 30, 2016.

Note 8 - Commitments

The Organization leases office and distribution facilities under non-cancelable operating lease agreements which extend through February 2022. The agreements for the office facilities require the Organization to pay common area expenses and utilities associated with the leased property. Future minimum non-cancelable lease payments for years ending September 30 are as follows:

2017	$ 135,907
2018	113,187
2019	116,582
2020	120,080
2021	123,682
Thereafter	52,167
	$ 661,605

Rental expense under non-cancelable leases was $103,220 and $31,220 for the years ended September 30, 2016 and 2015, respectively.

Note 9 - 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:

	2016	2015
Support and revenue		
State and local government funding	$ 181,075	$ 192,019
Other	106,091	73,605
	287,166	265,624
Expenses		
Salaries and related expenses	1,434,843	1,345,225
Administrative expenses	1,012,263	795,979
Deaf-Blind retreat	138,636	104,013
	2,585,742	2,245,217
Excess of employee and community services expenses over support and revenue	$ (2,298,576)	$ (1,979,593)

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:

	2016	2015
Cash and investments	$ 4,809,120	$ 4,463,440
Unrestricted net assets	$ 4,809,120	$ 4,463,440
Net assets at beginning of year	$ 4,463,440	$ 4,434,196
Contributions received, including in-kind	1,789,397	1,295,297
Interest income	84,588	109,945
Realized gain (loss) on investments, net	(22,053)	658,916
Unrealized gain (loss) on investments, net	246,258	(778,218)
Contribution to the Lighthouse	(1,136,645)	(776,474)
In-kind expense	(153,664)	(66,983)
Other income (expense)	(2,471)	8,415
Operating expenses allocated from Lighthouse	(459,731)	(421,654)
Net assets at end of year	$ 4,809,120	$ 4,463,440

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, 2016 and 2015, 60% and 58%, respectively, of sales were to four customers. At September 30, 2016 and 2015, 65% and 68%, respectively, of accounts receivable was due from these customers.