REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

THE LIGHTHOUSE FOR THE BLIND, INCORPORATED AND ITS FOUNDATION

September 30, 2017 and 2016

MOSSADAMS

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Report of Independent Auditors

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

Report on the 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, 2017 and 2016, 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 we have 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Seattle, Washington
March 19, 2018

ASSETS

	September 30, 2017	September 30, 2016
CURRENT ASSETS		
Cash and cash equivalents	$ 11,727,168	$ 7,762,885
Accounts receivable, net of allowance for doubtful accounts of $300,000 and $365,000, respectively	3,633,094	5,615,509
Other receivables	526,355	856,446
Inventory, net of reserve of $731,000 and $722,500, respectively	11,256,593	17,291,702
Other assets	164,673	559,339
Total current assets	27,307,883	32,085,881
INVESTMENTS	16,809,031	15,102,701
PROPERTY, PLANT AND EQUIPMENT, net	17,311,570	18,793,066
	$ 61,428,484	$ 65,981,648

LIABILITIES AND UNRESTRICTED NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 8,165,571	$ 6,347,057
Deferred revenue	173,566	8,333,804
Accrued paid time off	965,725	1,029,687
Other liabilities	62,781	68,398
Current portion of long-term debt	3,700,000	200,000
Total current liabilities	13,067,643	15,978,946
UNFUNDED PENSION OBLIGATION	2,591,881	5,865,431
LONG-TERM DEBT, net of current portion	-	3,700,000
Total liabilities	15,659,524	25,544,377
UNRESTRICTED NET ASSETS		
Unrestricted	28,655,585	24,945,209
Board designated	17,113,375	15,492,062
	45,768,960	40,437,271
	$ 61,428,484	$ 65,981,648

The Lighthouse for the Blind, Incorporated and Its Foundation

Consolidated Statements of Activities and Changes in Unrestricted Net Assets

	Years Ended September 30, 2017	2016
NET SALES	$ 79,701,321	$ 75,791,707
COST OF SALES	67,631,880	65,138,306
	12,069,441	10,653,401
COSTS AND EXPENSES		
Shipping	1,035,154	930,143
Administrative	9,764,493	9,644,035
Provision for doubtful accounts (recoveries)	(10,646)	-
	10,789,001	10,574,178
INCOME FROM MANUFACTURING AND SERVICE BUSINESSES	1,280,440	79,223
OTHER INCOME (EXPENSE)		
Investment return	1,972,315	1,382,830
Excess of employee and community services expenses over support and revenue	(2,338,929)	(2,298,576)
Other expense, net	(802,891)	(717,186)
Bequests, contributions, grants and charitable trust distributions	1,784,928	1,789,397
	615,423	156,465
OPERATING INCOME	1,895,863	235,688
NET PENSION BENEFIT OBLIGATION ADJUSTMENT	3,435,826	(1,970,656)
CHANGE IN UNRESTRICTED NET ASSETS	5,331,689	(1,734,968)
UNRESTRICTED NET ASSETS		
Beginning of year	40,437,271	42,172,239
End of year	$ 45,768,960	$ 40,437,271

See accompanying notes.

	Years Ended September 30, 2017	Years Ended September 30, 2016
OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 5,331,689	$ (1,734,968)
Adjustments to reconcile change in unrestricted net assets to cash provided by operating activities		
Depreciation	2,032,179	1,983,497
Change in inventory reserve	8,500	19,800
Realized and unrealized gain on investments, net	(1,683,752)	(1,098,330)
Unfunded pension obligation, net	(3,273,550)	2,033,213
(Gain)/Loss on sale/disposal of property, plant and equipment	26,537	(10,338)
Changes in operating assets and liabilities		
Accounts receivable	1,982,415	(940,614)
Other receivables	330,091	(661,794)
Inventory	6,026,609	(6,401,463)
Other assets	394,666	(432,685)
Liabilities	1,748,935	(208,386)
Deferred revenue	(8,160,238)	8,199,683
Net cash provided by operating activities	4,764,081	747,615
INVESTING ACTIVITIES		
Purchases of investments	(2,464,255)	(1,660,434)
Proceeds from sale of investments	2,441,677	1,822,543
Purchases of property, plant and equipment	(591,720)	(3,702,812)
Proceeds from sale of property, plant and equipment	14,500	10,500
Net cash used in investing activities	(599,798)	(3,530,203)
FINANCING ACTIVITIES		
Principal repayments of long-term debt	(200,000)	(200,000)
CHANGE IN CASH AND CASH EQUIVALENTS	3,964,283	(2,982,588)
CASH AND CASH EQUIVALENTS		
Beginning of year	7,762,885	10,745,473
End of year	$ 11,727,168	$ 7,762,885
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 115,688	$ 122,093

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, DeafBlind, 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. Additionally, the Lighthouse operates base supply centers and contract closeout services within Washington, Nevada, and California.

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 products and office products and other items under government contracts.
- Operating military base supply centers for sales of office and other supplies to the base staff.
- Operating a center that provides accessibility, 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.

At September 30, 2017 and 2016, the Organization had no temporarily or permanently restricted net assets.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

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 is 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.

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

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

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 and changes in unrestricted net assets, net of returns and allowances. Returns and allowances were not material for the years ended September 30, 2017 and 2016.

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 is recorded at the time title is transferred.

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 shipping costs. Incoming freight incurred by the Organization is included as a component of cost of sales.

Bequests and contributions – Bequests and contributions are recognized as income, at fair market value, when the gift is received. The Organization does not usually receive advance notification of charitable trust distributions and other contributions. 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, 2017 and 2016, was $95,667 and $98,725, respectively. Fund-raising expenses were 5% and 6% of the total contribution revenue for the years ended September 30, 2017 and 2016, respectively. The ratio of expenses to amounts raised is computed using actual expenses and related contributions. Fundraising expenses are recorded in administrative expense in the consolidated statement of activities and changes in unrestricted net assets.

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, 2017 and 2016. 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.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

The Organization recognizes interest and penalties related to income tax matters in income tax expense. As of September 30, 2017 and 2016, 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.

Recent accounting pronouncements – Effective for the year ended September 30, 2017, the Organization has adopted the FASB ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This ASU requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the consolidated financial statements are issued. As of March 20, 2018, management has concluded that there is not a substantial doubt about the entity's ability to continue as a going concern.

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 19, 2018, which is the date the consolidated financial statements were issued.

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 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.

Note 2 – Investments (continued)

The Organization classified its investments as of September 30, 2017 and 2016, 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, are 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 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.

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. In circumstances where investments with no readily available instruments to measure fair value occur, investments are then 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 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.

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.

Note 2 – Investments (continued)

Investments consist of the following at September 30:

	2017	2016
Common trusts	$ 6,357,648	$ 5,506,710
Mutual funds - equities	5,119,000	3,961,382
Corporate debt	1,778,249	1,889,925
Domestic Equity securities	1,196,073	1,273,907
Hedge fund	996,414	962,489
Mutual funds - fixed income	584,038	651,213
Mutual funds - real estate indexed	347,229	321,607
Venture capital	294,730	349,457
U.S. government securities	135,650	186,011
	$ 16,809,031	$ 15,102,701

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:

	2017	2016
Dividends and interest	$ 288,563	$ 284,500
Realized gain, net	281,193	33,592
Unrealized gain, net	1,402,559	1,064,738
	$ 1,972,315	$ 1,382,830

Note 2 – Investments (continued)

The following table discloses by level the fair value hierarchy:

	Investment Assets at Fair Value as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Common trusts	$ 6,357,648	$ -	$ -	$ 6,357,648
Mutual funds - equities	5,119,000	-	-	5,119,000
Corporate debt	-	1,778,249	-	1,778,249
Domestic Equity securities	1,196,073	-	-	1,196,073
Mutual funds - fixed income	584,038	-	-	584,038
Mutual funds - real estate indexed	347,229	-	-	347,229
Venture capital	-	-	294,730	294,730
U.S. government securities	-	135,650	-	135,650
Total assets in the fair value hierarchy	$ 13,603,988	$ 1,913,899	$ 294,730	15,812,617
Hedge fund Investments measured at NAV (practical expedient)				996,414
				$ 16,809,031

	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
Domestic Equity securities	1,273,907	-	-	1,273,907
Mutual funds - fixed income	651,213	-	-	651,213
Mutual funds - real estate indexed	321,607	-	-	321,607
Venture capital	-	-	349,457	349,457
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
Hedge fund Investments measured at NAV (practical expedient)				962,489
				$ 15,102,701

The Organization has a hedge fund measured at fair value on a recurring basis utilizing net asset value per share as the practical expedient. This privately offered fund of funds has an estimated fair value of $996,414 and $962,489 as of September 30, 2017 and 2016, 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 fund has no unfunded commitments as of September 30, 2017 and 2016.

Note 2 – Investments (continued)

The Organization has a Level 3 investment in a venture capital fund. 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. The fund has no unfunded commitments as of September 30, 2017 and 2016.

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

	Venture Capital	
	2017	2016
Balance, beginning of year	$ 349,457	$ 426,037
Unrealized gains	38,673	19,320
Capital calls	15,550	19,600
Distributions	(108,950)	(115,500)
Balance, end of year	$ 294,730	$ 349,457

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:

	2017	2016
Raw materials	$ 3,382,164	$ 3,798,327
Work-in-process	3,202,753	3,108,229
Finished goods	4,671,676	10,385,146
	$ 11,256,593	$ 17,291,702

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 $662,276 and $562,557 for the years ended September 30, 2017 and 2016, respectively. The Plan paid $987,495 and $838,824 in benefits to participants for the years ended September 30, 2017 and 2016, respectively.

Contributions to the Plan were $500,000 for the years ended September 30, 2017 and 2016, 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 Income Security Act of 1974 (ERISA). The Organization had no non-cash contributions during the years ended September 30, 2017 and 2016, 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, 2017 and 2016. 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:

	2017	2016
Projected benefit obligation, end of year	$ 24,821,109	$ 26,473,343
Fair value of Plan assets	22,229,228	20,607,912
Net underfunded status	$ (2,591,881)	$ (5,865,431)

The net underfunded status of the Plan decreased at September 30, 2017, compared to the previous measurement date of September 30, 2016. The decrease is principally due to a decrease in the projected benefit obligation from an increase in the discount rate (as noted in the table on page 15) and an increase in the fair value of Plan assets from investment gains.

The consolidated balance sheets include $6,281,279 and $9,717,105 of total unrecognized net loss and prior service cost in unrestricted net assets for the years ended September 30, 2017 and 2016, respectively. The unfunded benefit obligation, which represents the net underfunded status of the plan, totaled $2,591,881 and $5,865,431 on the consolidated balance sheets as of September 30, 2017 and 2016, respectively. Although the Plan shows a net underfunded status as of September 30, 2017 and 2016, 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:

	2017	2016
Discount rate	3.53%	3.22%
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 %	2017 Actual	2016 Actual
Cash and cash equivalents	0-4%	1.24%	4.12%
Fixed income	33-57%	35.41%	38.64%
Equity securities	21-56%	52.26%	45.98%
Other	10-28%	11.10%	11.27%

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	2017	2016	Fair Value Hierarchy Level
Common and collective trusts	$ 8,931,022	$ 8,526,621	1
Mutual funds - equities	3,950,795	2,908,614	1
Equity securities	3,287,397	3,017,554	1
Fixed income	2,169,619	1,823,796	2
Mutual funds - fixed income	1,334,713	1,232,261	1
U.S. government securities	361,481	370,113	2
Cash and cash equivalents	270,295	837,411	1
Corporate debt	236,372	261,463	2
Total plan assets in the fair value hierarchy	20,541,694	18,977,833	
Plan assets measured at NAV (practical expedient)	1,687,534	1,630,079	
	$ 22,229,228	$ 20,607,912	

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 quarterly.

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

Expected Future Benefit Payments	
2018	$ 1,273,978
2019	1,248,566
2020	1,286,533
2021	1,312,167
2022	1,314,918
2023 through 2027	6,631,612

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 $1,331,582 and $1,298,653 for the years ended September 30, 2017 and 2016, respectively.

Note 5 – Property, Plant, and Equipment

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

	2017	2016
Land	$ 2,655,599	$ 2,655,599
Buildings and improvements	20,762,674	20,589,589
Machinery and equipment	27,507,424	28,357,145
	50,925,697	51,602,332
Less accumulated depreciation	33,614,127	32,809,267
	$ 17,311,570	$ 18,793,066

Note 6 – Deferred Revenue

Deferred revenue is composed of the following at September 30:

	2017	2016
Manufactured goods	$ -	$ 8,097,895
Base supply centers	173,566	235,909
	$ 173,566	$ 8,333,804

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 September 30, 2017, there was no deferred revenue related to the sales of manufactured goods.

Note 7 – Long-Term Debt

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

	2017	2016
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.	$ 3,700,000	$ 3,900,000
Less current portion	3,700,000	200,000
	$ -	$ 3,700,000

Note 7 – Long-Term Debt (continued)

The note payable has two financial covenants, a fixed charge coverage ratio and a liquid assets ratio.

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 during the year or as of September 30, 2017.

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:

2018	$ 139,203
2019	116,582
2020	120,080
2021	123,682
2022	52,167
	$ 551,714

Rental expense under non-cancelable leases was $141,110 and $103,220 for the years ended September 30, 2017 and 2016, 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 accessibility, orientation, mobility, communication and basic education skills training to blind, DeafBlind and blind adults with other disabilities. 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.

Note 9 – Employee and Community Services Center (continued)

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

	2017	2016
Support and revenue		
State and local government funding	$ 176,075	$ 181,075
Other	157,531	106,091
	333,606	287,166
Expenses		
Salaries and related expenses	1,552,377	1,434,843
Administrative expenses	967,318	1,012,263
DeafBlind retreat	152,840	138,636
	2,672,535	2,585,742
Excess of employee and community services expenses over support and revenue	$ (2,338,929)	$ (2,298,576)

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, DeafBlind, and blind with other disabilities.

Note 11 – 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:

	2017	2016
Cash and investments	$ 5,332,412	$ 4,809,120
Unrestricted net assets	$ 5,332,412	$ 4,809,120
Net assets at beginning of year	$ 4,809,120	$ 4,463,440
Contributions received, including in-kind	1,784,928	1,789,397
Interest income	94,147	84,588
Realized loss on investments, net	8,215	(22,053)
Unrealized gain on investments, net	425,015	246,258
Contribution to the Lighthouse	(1,272,427)	(1,136,645)
In-kind expense	(29,117)	(153,664)
Other income (expense)	(4,821)	(2,471)
Operating expenses allocated from the Lighthouse	(482,648)	(459,731)
Net assets at end of year	$ 5,332,412	$ 4,809,120

Contributions received by the Foundation include cash and in-kind charitable giving, which 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

Customer concentrations – During the years ended September 30, 2017 and 2016, 55% and 47%, respectively, of sales were to two customers. At September 30, 2017 and 2016, 69% and 62%, respectively, of accounts receivable was due from these customers.

Vendor concentrations – The Organization had two major vendors which made up 43% and 28% of cost of goods sold during the years ended September 30, 2017 and 2016, respectively. At September 30, 2017 and 2016, 53% and 42%, respectively, of accounts payable was due to these customers.

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