REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

THE LIGHTHOUSE FOR THE BLIND, INCORPORATED AND ITS FOUNDATION

September 30, 2018 and 2017

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MOSSADAMS

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, 2018 and 2017, 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, 2018 and 2017, 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 11, 2019

ASSETS

	September 30, 2018	September 30, 2017
CURRENT ASSETS		
Cash and cash equivalents	$ 5,262,235	$ 11,727,168
Accounts receivable, net of allowance for doubtful accounts of $250,000 and $300,000, respectively	9,843,363	3,633,094
Other receivables	421,206	487,970
Inventory, net of reserve of $625,000 and $731,000, respectively	16,085,247	11,256,593
Prepaid pension expense	586,690	-
Other assets	210,395	164,673
Total current assets	32,409,136	27,269,498
INVESTMENTS	16,049,020	16,809,031
PROPERTY, PLANT AND EQUIPMENT, net	16,845,998	17,311,570
	$ 65,304,154	$ 61,390,099

LIABILITIES AND UNRESTRICTED NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 11,265,510	$ 8,127,186
Deferred revenue	466,575	173,566
Accrued paid time off	1,033,426	965,725
Other liabilities	89,869	62,781
Current portion of long-term debt	215,830	3,700,000
Total current liabilities	13,071,210	13,029,258
UNFUNDED PENSION OBLIGATION	-	2,591,881
LONG-TERM DEBT, net of current portion	1,480,000	-
Total liabilities	14,551,210	15,621,139
UNRESTRICTED NET ASSETS		
Unrestricted	34,486,338	28,655,585
Board designated	16,266,606	17,113,375
	50,752,944	45,768,960
	$ 65,304,154	$ 61,390,099

The Lighthouse for the Blind, Incorporated and Its Foundation

Consolidated Statements of Activities and Changes in Unrestricted Net Assets

	Years Ended September 30, 2018	2017
NET SALES	$ 84,317,362	$ 79,701,321
COST OF SALES	68,826,964	67,631,880
	15,490,398	12,069,441
COSTS AND EXPENSES		
Shipping	1,260,544	1,035,154
Administrative	9,979,879	9,764,493
Provision for doubtful accounts (recoveries)	(10,309)	(10,646)
	11,230,114	10,789,001
INCOME FROM MANUFACTURING AND SERVICE BUSINESSES	4,260,284	1,280,440
OTHER INCOME (EXPENSE)		
Investment return	912,742	1,972,315
Excess of employee and community services expenses over support and revenue	(2,492,194)	(2,338,929)
Other expense, net	(158,892)	(320,242)
Bequests, contributions, grants and charitable trust distributions	1,252,194	1,302,279
	(486,150)	615,423
OPERATING INCOME	3,774,134	1,895,863
NET PENSION BENEFIT OBLIGATION ADJUSTMENT	1,209,850	3,435,826
CHANGE IN UNRESTRICTED NET ASSETS	4,983,984	5,331,689
UNRESTRICTED NET ASSETS		
Beginning of year	45,768,960	40,437,271
End of year	$ 50,752,944	$ 45,768,960

	Years Ended September 30, 2018	2017
OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 4,983,984	$ 5,331,689
Adjustments to reconcile change in unrestricted net assets to cash provided by (used in) operating activities		
Depreciation	1,959,676	2,032,179
Realized and unrealized gain on investments, net	(580,204)	(1,683,752)
Unfunded pension obligation, net	(2,591,881)	(3,273,550)
(Gain) loss on sale/disposal of property, plant, and equipment	(11,764)	26,537
Changes in operating assets and liabilities		
Accounts receivable, net	(6,210,269)	1,982,415
Other receivables	66,764	368,476
Inventory, net	(4,828,653)	6,035,109
Prepaid pension	(586,690)	-
Other assets	(45,722)	394,666
Liabilities	3,233,113	1,710,550
Deferred revenue	293,009	(8,160,238)
Net cash provided by operating activities	(4,318,637)	4,764,081
INVESTING ACTIVITIES		
Purchases of investments	(3,965,297)	(2,464,255)
Proceeds from sale of investments	5,305,510	2,441,677
Purchases of property, plant and equipment	(1,532,339)	(591,720)
Proceeds from sale of property, plant and equipment	50,000	14,500
Net cash used in investing activities	(142,126)	(599,798)
FINANCING ACTIVITIES		
Principal repayments of long-term debt	(2,004,170)	(200,000)
CHANGE IN CASH AND CASH EQUIVALENTS	(6,464,933)	3,964,283
CASH AND CASH EQUIVALENTS		
Beginning of year	11,727,168	7,762,885
End of year	$ 5,262,235	$ 11,727,168
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 99,275	$ 115,688

See accompanying notes.

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 empower people who are blind, DeafBlind, and blind with other disabilities by creating diverse, sustainable, and meaningful employment opportunities.

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, 2018 and 2017, 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 net realizable value. Net realizable value is the estimate price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. 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, 2018 and 2017.

Deferred revenue – Deferred revenue consists of customer prepayments for base supply center items. The revenue is recorded at the time title is transferred. Deferred revenue for year ended September 30, 2018 and 2017, was $466,575 and $173,566, respectively.

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, 2018 and 2017, was $147,930 and $95,667, respectively. Fund-raising expenses were 8% and 5% of the total contribution revenue for the years ended September 30, 2018 and 2017, 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, 2018 and 2017. 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, 2018 and 2017, 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 accordance 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.

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 11, 2019, which is the date the consolidated financial statements were issued.

Effective November 6, 2018, the Board passed a resolution to terminate the defined benefit pension plan. Please see Note 4 for further detail.

Effective December 10, 2018, the Organization entered into a contract to sell vacant land located adjacent to the Seattle facility. Please see Note 5 for further detail.

Reclassifications – Certain reclassifications were made to prior year balances. The reclassifications were for presentation purposes only and had no effect on the current year or prior 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.

The Organization classified its investments as of September 30, 2018 and 2017, 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) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Note 2 – Investments (continued)

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. The Organization holds common trusts as a Level 1 investment. Common trusts are a consolidated group of individual trust investments, similar to mutual funds, that are managed by a trust company. The fair value of investments is determined by the fund's trustee based on the fair value of the underlying securities, and as such is fairly classified as a Level 1 investment.

Investments with values that 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.

Note 2 – Investments (continued)

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 by the Organization and it is most representative of fair value.

Investments consist of the following at September 30:

	2018	2017
Mutual funds - equities	$ 4,472,180	$ 5,119,000
Common trusts	4,468,898	5,433,384
U.S. government securities	1,958,094	1,059,914
Corporate debt	1,907,537	1,778,249
Domestic equity securities	1,445,026	1,196,073
Mutual funds - fixed income	652,895	584,038
Hedge fund	619,577	996,414
Venture capital	263,854	294,730
Mutual funds - real estate indexed	260,959	347,229
	$ 16,049,020	$ 16,809,031

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:

	2018	2017
Dividends and interest	$ 332,538	$ 288,563
Realized gain, net	1,103,629	281,193
Unrealized (loss) gain, net	(523,425)	1,402,559
	$ 912,742	$ 1,972,315

Note 2 – Investments (continued)

The following table discloses by level the fair value hierarchy:

	Investment Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds - equities	$ 4,472,180	$ -	$ -	$ 4,472,180
Common trusts	4,468,898	-	-	4,468,898
U.S. government securities	-	1,958,094	-	1,958,094
Corporate debt	-	1,907,537	-	1,907,537
Domestic equity securities	1,445,026	-	-	1,445,026
Mutual funds - fixed income	652,895	-	-	652,895
Venture capital	-	-	263,854	263,854
Mutual funds - real estate indexed	260,959	-	-	260,959
Total assets in the fair value hierarchy	$ 11,299,958	$ 3,865,631	$ 263,854	15,429,443
Hedge fund Investments measured at NAV practical expedient				619,577
				$ 16,049,020

	Investment Assets at Fair Value as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Common trusts	$ 5,433,384	$ -	$ -	$ 5,433,384
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	-	1,059,914	-	1,059,914
Total assets in the fair value hierarchy	$ 12,679,724	$ 2,838,163	$ 294,730	15,812,617
Hedge fund Investments measured at NAV practical expedient				996,414
				$ 16,809,031

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 $619,577 and $996,414 as of September 30, 2018 and 2017, respectively. 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, 2018 and 2017.

Note 2 – Investments (continued)

The Organization has a Level 3 investment in a venture capital fund. The venture capital fund has the option to terminate beginning on the twelfth anniversary of the effective date (Feb 1 2007). 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, 2018 and 2017.

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

	Venture Capital	
	2018	2017
Balance, beginning of year	$ 294,730	$ 349,457
Unrealized gains	73,874	38,673
Capital calls	-	15,550
Distributions	(104,750)	(108,950)
Balance, end of year	$ 263,854	$ 294,730

Transfers in and transfers out are recognized as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers in or out for the years ended September 30, 2018 and 2017, respectively.

Note 3 – Inventory

Net inventory is composed of the following at September 30:

	2018	2017
Raw materials	$ 6,001,705	$ 3,382,164
Work-in-process	3,492,170	3,202,753
Finished goods	7,216,372	5,402,676
Inventory reserve	(625,000)	(731,000)
	$ 16,085,247	$ 11,256,593

Note 4 – Employee Benefit Plans

Defined benefit pension plan – The Organization maintains a funded non-contributory defined benefit pension plan (the Plan) that 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 $131,279 and $662,276 for the years ended September 30, 2018 and 2017, respectively. The Plan paid $1,018,611 and $987,495 in benefits to participants for the years ended September 30, 2018 and 2017, respectively.

Contributions to the Plan were $2,100,000 and $500,000 for the years ended September 30, 2018 and 2017, 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 noncash contributions during the years ended September 30, 2018 and 2017, and has no expectation of future noncash contributions.

The projected benefit obligation represents the present value of all benefits attributed to employee service rendered through the measurement dates, September 30, 2018 and 2017. 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:

	2018	2017
Projected benefit obligation, end of year	$ 23,418,044	$ 24,821,109
Fair value of Plan assets	24,004,734	22,229,228
Net funded/(underfunded) status	$ 586,690	$ (2,591,881)

During the current fiscal year, the Organization made Plan contributions of $2,100,000 in preparation for the Plan termination discussed herein. These contributions, coupled with an increase in the discount rate and an increase in the fair value of the Plan assets from investment gains, resulted in a net funded status at September 30, 2018.

The consolidated balance sheets include $5,071,429 and $6,281,279 of total unrecognized net loss and prior service cost in unrestricted net assets for the years ended September 30, 2018 and 2017, respectively.

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:

	2018	2017
Discount rate	4.01%	3.53%
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 %	2018 Actual	2017 Actual
Cash and cash equivalents	0-4%	0.60%	1.24%
Fixed income	33-57%	61.92%	35.41%
Equity securities	21-56%	29.27%	52.26%
Other	10-28%	8.21%	11.10%

Effective October 10, 2018, the Board amended its target investment allocation in preparation for the Plan termination in an effort to limit market exposure. This represented a significant shift in asset allocation, and as such, any variances from target ranges as of September 30, 2018, were temporary due to timing of rebalancing trades.

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	2018	2017	Fair Value Hierarchy Level
Fixed income	$ 11,156,697	$ 5,940,000	2
Common trusts	4,836,990	4,381,054	1
Mutual funds - fixed income	3,707,521	1,334,713	1
Mutual funds - equities	2,188,235	3,950,795	1
Mutual funds - real estate indexed	240,998	779,588	1
Cash and cash equivalents	144,926	270,295	1
U.S. government securities	-	361,481	2
Equity securities	-	3,287,397	1
Corporate debt	-	236,372	2
Total Plan assets in the fair value hierarchy	22,275,368	20,541,695	
Plan assets measured at NAV practical expedient	1,729,367	1,687,534	
	$ 24,004,734	$ 22,229,229	

The primary objective for the investments of the Plan is to provide for long-term growth of capital without undue exposure to risk. This is accomplished by utilizing a strategy of common 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.

Effective November 6, 2018, the Board passed a resolution to terminate the Plan. As of the date of issuance, this termination is still in process. As a part of this process an accredited insurance company will be selected to administer all Plan benefits going forward. At the time of selection, all participant benefits and Plan funds will be transferred to the company selected. The selection process will emphasize safety of future benefits for Plan participants and experience administering Plans of similar size and scope. This decision was made with the intention of protecting participant benefits and limiting market exposure and administrative costs for the Organization.

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. Effective January 1, 2019, the Organization's Board of Trustees approved an amendment to the Plan to allow for Roth contributions. The Organization makes contributions to the annuity plan up to 6% of employee compensation. Contributions made by the Organization to the annuity plan totaled $1,391,718 and $1,331,582 for the years ended September 30, 2018 and 2017, respectively.

Note 5 – Property, Plant, and Equipment

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

	2018	2017
Land	$ 2,655,599	$ 2,655,599
Buildings and improvements	21,043,626	20,762,674
Machinery and equipment	25,951,130	27,507,424
	49,650,355	50,925,697
Less accumulated depreciation	32,804,357	33,614,127
	$ 16,845,998	$ 17,311,570

On December 10, 2018, the Organization entered into a contract to sell vacant land located adjacent to the Seattle facility. This land was considered surplus to business operations. Closing of the transaction is dependent upon the purchaser obtaining certain development permits. The timing of permit issuance cannot be estimated at this time.

Note 6 – Long-Term Debt

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

	2018	2017
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 April 15, 2014, remaining principal due April 2018.	$ -	$ 3,700,000
Note payable to bank, five-year term, collateralized by real estate, interest at 4.23%, interest payments required monthly, principal payments of $370,000 due annually beginning April 15, 2019, remaining principal due April 2023.	1,695,830	-
Less current portion	215,830	3,700,000
	$ 1,480,000	$ -

In April 2018, the Organization refinanced the note payable in the amount of $1,850,000. During 2018, the Organization made principal payments of $370,000 before the annual due date without penalty.

Note 6 – Long-Term Debt (continued)

Future maturities of long-term debt are as follows:

2019	$ 215,830
2020	370,000
2021	370,000
2022	370,000
2023	370,000
	$ 1,695,830

The note payable has two financial covenants, a fixed charge coverage ratio and a liquid assets ratio. The Organization is in compliance with all covenants as of September 30, 2018.

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 years or as of September 30, 2018 and 2017. The Organization holds a letter of credit against the available credit line associated with third-party bonding insurance for raw material imports. As of September 30, 2018, the Organization held a letter of credit for $75,000.

Note 7 – Commitments

The Organization leases office and distribution facilities under noncancelable operating lease agreements that 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 noncancelable lease payments for years ending September 30 are as follows:

2019	$ 142,599
2020	120,080
2021	123,682
2022	52,167
	$ 438,528

Rental expense under noncancelable leases was $144,407 and $141,110 for the years ended September 30, 2018 and 2017, respectively.

Note 8 – Employee and Community Services

Employee and Community Services (ECS), 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 ECS and utilized in the period they are received.

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

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

	2018	2017
Support and revenue		
State and local government funding	$ 182,352	$ 176,075
Other	72,800	157,531
	255,152	333,606
Expenses		
Salaries and related expenses	1,542,535	1,552,377
Administrative expenses	1,024,686	967,318
DeafBlind retreat	180,125	152,840
	2,747,346	2,672,535
Excess of employee and community services expenses over support and revenue	$ (2,492,194)	$ (2,338,929)

Note 9 – 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 10 – 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 empower people who are blind, DeafBlind, and blind with other disabilities by creating diverse, sustainable, and meaningful employment opportunities.

Note 10 – 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:

	2018	2017
Cash and investments	$ 5,444,821	$ 5,332,412
Net assets at beginning of year	$ 5,332,412	$ 4,809,120
Contributions received, including in-kind	1,903,477	1,784,928
Interest income	106,045	94,147
Realized loss on investments, net	170,970	8,215
Unrealized gain on investments, net	1,657	425,015
Contribution to the Lighthouse	(1,308,836)	(1,272,427)
In-kind expense	(102,867)	(29,117)
Other income (expense)	(6,755)	(4,821)
Operating expenses allocated from the Lighthouse	(651,282)	(482,648)
Net assets at end of year	$ 5,444,821	$ 5,332,412

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 11 – Concentrations

Customer concentrations – During the years ended September 30, 2018 and 2017, 51% and 54%, respectively, of sales were to two customers. At September 30, 2018 and 2017, 76% and 56%, respectively, of accounts receivable was due from these customers.

Vendor concentrations – The Organization had two major vendors that made up 32% and 25% of cost of goods sold during the years ended September 30, 2018 and 2017, respectively. At September 30, 2018 and 2017, 45% and 53%, respectively, of accounts payable was due to these customers.

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