REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

THE LIGHTHOUSE FOR THE BLIND, INCORPORATED AND ITS FOUNDATION

September 30, 2019 and 2018

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, 2019 and 2018, and the related consolidated statements of activities and changes in 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, 2019 and 2018, 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.

Emphasis of a Matter

The Lighthouse for the Blind, Incorporated and its Foundation adopted Accounting Standards Update (ASU) 2016-14, *Presenting Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and methods used to allocate expenses. The adoption of this standard resulted in additional footnote disclosures and changes to the disclosures related to net assets. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Seattle, Washington
March 10, 2020

ASSETS

	September 30, 2019	September 30, 2018
CURRENT ASSETS		
Cash and cash equivalents	$ 7,326,597	$ 5,262,235
Accounts receivable, net of allowance for doubtful accounts of $100,000 and $250,000, respectively	7,896,406	9,843,363
Other receivables	395,061	421,206
Inventory, net of reserve of $659,000 and $625,000, respectively	16,245,283	16,085,247
Prepaid pension expense	-	586,690
Other assets	219,776	210,395
Total current assets	32,083,123	32,409,136
INVESTMENTS	14,178,809	16,049,020
PROPERTY, PLANT AND EQUIPMENT, net	17,603,871	16,845,998
	$ 63,865,803	$ 65,304,154

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 8,114,337	$ 11,265,510
Deferred revenue	464,823	466,575
Accrued paid time off	1,012,375	1,033,426
Other liabilities	71,520	89,869
Current portion of long-term debt	215,822	215,830
Total current liabilities	9,878,877	13,071,210
LONG-TERM DEBT, net of current portion	1,110,000	1,480,000
Total liabilities	10,988,877	14,551,210
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Without donor restrictions	36,270,217	34,486,338
Board designated	16,606,709	16,266,606
	52,876,926	50,752,944
	$ 63,865,803	$ 65,304,154

The Lighthouse for the Blind, Incorporated and Its Foundation
Consolidated Statements of Activities and Changes in Net Assets

	Years Ended September 30, 2019	Years Ended September 30, 2018
NET SALES	$ 98,307,385	$ 84,317,362
COST OF SALES	82,501,850	68,826,964
	15,805,535	15,490,398
COSTS AND EXPENSES		
Shipping	1,415,504	1,260,544
Administrative	10,970,436	9,979,879
Provision for doubtful accounts (recoveries)	(30,656)	(10,309)
	12,355,284	11,230,114
INCOME FROM MANUFACTURING AND SERVICE BUSINESSES	3,450,251	4,260,284
OTHER INCOME (EXPENSE)		
Investment return	210,488	912,742
Excess of employee and community services expenses over support and revenue	(2,568,456)	(2,492,194)
Other income (expense), net	(142,598)	(158,892)
Bequests, contributions, grants and charitable trust distributions	1,377,854	1,252,194
	(1,122,712)	(486,150)
OPERATING INCOME	2,327,539	3,774,134
NET PENSION BENEFIT OBLIGATION ADJUSTMENT	(203,557)	1,209,850
CHANGE IN NET ASSETS	2,123,982	4,983,984
NET ASSETS		
Beginning of year	50,752,944	45,768,960
End of year	$ 52,876,926	$ 50,752,944

See accompanying notes.

	Years Ended September 30, 2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 2,123,982	$ 4,983,984
Adjustments to reconcile change in unrestricted net assets to cash provided by (used in) operating activities		
Depreciation	1,905,397	1,959,676
Realized and unrealized (gain) loss on investments, net	128,288	(580,204)
Unfunded pension obligation, net	-	(2,591,881)
(Gain) loss on sale/disposal of property, plant, and equipment	(16,730)	(11,764)
Changes in operating assets and liabilities		
Accounts receivable, net	1,946,957	(6,210,269)
Other receivables	26,145	66,764
Inventory, net	(160,036)	(4,828,653)
Prepaid pension	586,690	(586,690)
Other assets	(9,381)	(45,722)
Liabilities	(3,190,573)	3,233,113
Deferred revenue	(1,752)	293,009
Net cash provided by (used in) operating activities	3,338,987	(4,318,637)
INVESTING ACTIVITIES		
Purchases of investments	(2,362,841)	(3,965,297)
Proceeds from sale of investments	3,721,630	5,305,510
Proceeds from termination of pension	383,134	-
Purchases of property, plant and equipment	(2,663,270)	(1,532,339)
Proceeds from sale of property, plant and equipment	16,730	50,000
Net cash used in investing activities	(904,617)	(142,126)
FINANCING ACTIVITIES		
Principal repayments of long-term debt	(370,008)	(2,004,170)
CHANGE IN CASH AND CASH EQUIVALENTS	2,064,362	(6,464,933)
CASH AND CASH EQUIVALENTS		
Beginning of year	5,262,235	11,727,168
End of year	$ 7,326,597	$ 5,262,235
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 73,099	$ 99,275

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) are not-for-profit organizations 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, Alabama, 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 two classes of net assets – without donor restrictions and with donor restrictions. The restriction of these net asset classes is determined based on the existence and nature of donor-imposed restrictions.

At September 30, 2019 and 2018, the Organization had no net assets with donor restrictions.

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.

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

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 net assets without donor restriction.

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

The Organization follows the practice of capitalizing substantially all expenditures for property, plant, and equipment in excess of $10,000. 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 net assets, net of returns and allowances. Returns and allowances were not material for the years ended September 30, 2019 and 2018.

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

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, 2019 and 2018, was $464,823 and $466,575, 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, 2019 and 2018, was $169,189 and $147,930, respectively. Fund-raising expenses were 8% of the total contribution revenue for the years ended September 30, 2019 and 2018, 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 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, 2019 and 2018. In addition, the Organization qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a). Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

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

The Organization recognizes interest and penalties related to income tax matters in income tax expense. As of September 30, 2019 and 2018, 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.

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

Accounting standards – The Organization adopted Accounting Standards Update (ASU) 2016-14, *Presenting Financial Statements for Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and methods used to allocate expenses. The adoption of this standard resulted in additional footnote disclosures and changes to the disclosures related to net assets.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are issued. The Organization has evaluated subsequent events through March 10, 2020, which is the date the consolidated financial statements were issued. See Note 6.

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 net assets without donor restrictions.

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, 2019 and 2018, 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:

Basis of Fair Value Measurement

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, assets or liabilities without donor restrictions;

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.

Note 2 – Investments (continued)

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.

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:

	2019	2018
Common trusts	$ 5,727,976	$ 4,468,898
Mutual funds - equities	3,237,246	4,472,180
Corporate debt	1,895,175	1,907,537
Domestic equity securities	1,515,067	1,445,026
Mutual funds - fixed income	794,047	652,895
Hedge fund	399,941	619,577
Mutual funds - real estate indexed	342,502	260,959
Venture capital	222,757	263,854
U.S. government securities	44,098	1,958,094
	$ 14,178,809	$ 16,049,020

Note 2 – Investments (continued)

The Board of Trustees (the Board) has designated certain assets consisting of bequests without donor restriction 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 Board designated net assets without donor restriction.

The following summarizes the investment return at September 30:

	2019	2018
Dividends and interest	$ 338,773	$ 332,538
Realized gain, net	383,144	1,103,629
Unrealized (loss) gain, net	(511,429)	(523,425)
	$ 210,488	$ 912,742

The following table discloses by level the fair value hierarchy:

	Investment Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Common trusts	$ 5,727,976	$ -	$ -	$ 5,727,976
Mutual funds - equities	3,237,246	-	-	3,237,246
Corporate debt	-	1,895,175	-	1,895,175
Domestic equity securities	1,515,067	-	-	1,515,067
Mutual funds - fixed income	794,047	-	-	794,047
Mutual funds - real estate indexed	342,502	-	-	342,502
Venture capital	-	-	222,757	222,757
U.S. government securities	-	44,098	-	44,098
Total assets in the fair value hierarchy	$ 11,616,838	$ 1,939,273	$ 222,757	13,778,868
Hedge fund Investments measured at NAV practical expedient				399,941
				$ 14,178,809

	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

Note 2 – Investments (continued)

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 portfolio of funds has an estimated fair value of $399,941 and $619,577 as of September 30, 2019 and 2018, 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, 2019 and 2018.

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 (February 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, 2019 and 2018.

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

	Venture Capital	
	2019	2018
Balance, beginning of year	$ 263,854	$ 294,730
Unrealized gains	51,653	73,874
Capital calls	-	-
Distributions	(92,750)	(104,750)
Balance, end of year	$ 222,757	$ 263,854

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, 2019 and 2018, respectively.

Note 3 – Inventory

Net inventory is composed of the following at September 30:

	2019	2018
Raw materials	$ 6,417,376	$ 6,001,705
Work-in-process	3,677,114	3,492,170
Finished goods	6,809,793	7,216,372
Inventory reserve	(659,000)	(625,000)
	$ 16,245,283	$ 16,085,247

Note 4 – Employee Benefit Plans

Defined benefit pension plan – The Organization maintained a funded non-contributory defined benefit pension plan (the Plan) that covered certain employees. Effective December 31, 2008, the Plan was frozen to new participants and effective November 6, 2018, the Board passed a resolution to terminate the Plan. The Plan was liquidated on July 30, 2019. After all benefits were paid or transferred, totaling $23,069,383, remaining assets representing over-funding in the amount of $383,134 were transferred to the Organization. Participant benefits were 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, did not affect the calculation of participant benefits.

Net periodic pension cost/(credit) was ($79,514) and $131,279 for the years ended September 30, 2019 and 2018, respectively. The Plan paid $604,077 and $1,018,611 in benefits to participants for the years ended September 30, 2019 and 2018, respectively.

Contributions to the Plan were $0 and $2,100,000 for the years ended September 30, 2019 and 2018, respectively. The Plan was on a calendar year basis and the Organization made 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, 2019 and 2018.

The projected benefit obligation represents the present value of all benefits attributed to employee service rendered through the measurement date, September 30, 2019 and 2018. 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:

	2019	2018
Projected benefit obligation, end of year	$ -	$ 23,418,044
Fair value of Plan assets	-	24,004,734
Net funded/(underfunded) status	$ -	$ 586,690

During the fiscal year ended September 30, 2018, 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.

Due to the Plan termination, $0 of total unrecognized net loss and prior service cost was recognized in the consolidated balance sheet within net assets without donor restrictions for the year ended September 30, 2019. The consolidated balance sheet includes $5,071,429 of total unrecognized net loss and prior service cost in net assets without donor restrictions for the year ended September 30, 2018.

Note 4 – Employee Benefit Plans (continued)

Actuarial valuations were utilized to measure the projected benefit obligation of the Plan. The amount of benefits to be paid depended 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 included discount rates and the expected return on Plan assets that were reviewed, at minimum, on an annual basis.

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

	2019	2018
Discount rate	0.00%	4.01%
Expected return on Plan assets	0.00%	6.40%

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

	Target %	2019 Actual	2018 Actual
Cash and cash equivalents	0-4%	0.00%	0.60%
Fixed income	33-57%	0.00%	61.92%
Equity securities	21-56%	0.00%	29.27%
Other	10-28%	0.00%	8.21%

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.

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

Asset Type	2019	2018	Fair Value Hierarchy Level
Fixed income	$ -	$ 11,156,697	2
Common trusts	-	4,836,990	1
Mutual funds - fixed income	-	3,707,521	1
Mutual funds - equities	-	2,188,235	1
Mutual funds - real estate indexed	-	240,998	1
Cash and cash equivalents	-	144,926	1
Total Plan assets in the fair value hierarchy	-	22,275,368	
Plan assets measured at NAV practical expedient	-	1,729,367	
	$ -	$ 24,004,734	

Note 4 – Employee Benefit Plans (continued)

The primary objective for the investments of the Plan was to provide for long-term growth of capital without undue exposure to risk. Investment managers had sole discretion to make investment decisions, within the scope of the investment policy approved by the Board. The Organization's management and Board-designated investment committee reviewed reports of actual Plan performance provided by independent third parties quarterly.

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 $1,450,722 and $1,391,718 for the years ended September 30, 2019 and 2018, respectively.

Note 5 – Property, Plant, and Equipment

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

	2019	2018
Land	$ 2,655,599	$ 2,655,599
Buildings and improvements	21,151,872	21,043,626
Machinery and equipment	27,757,668	25,951,130
	51,565,139	49,650,355
Less accumulated depreciation	33,961,268	32,804,357
	$ 17,603,871	$ 16,845,998

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. Closing of the transaction is dependent upon the purchaser obtaining certain development permits. On September 30, 2019, there was $600,000 held in escrow to be recognized at the time of closing which is currently expected in FY2020.

Note 6 – Long-Term Debt

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

	2019	2018
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.	$ 1,325,822	$ 1,695,830
Less current portion	215,822	215,830
	$ 1,110,000	$ 1,480,000

Future maturities of long-term debt are as follows:

2020	$ 215,822
2021	370,000
2022	370,000
2023	370,000
	$ 1,325,822

The note payable has two financial covenants, a fixed charge coverage ratio and a liquid assets ratio. The Organization is compliant with these covenants as of September 30, 2019.

In April 2016, the Organization entered into a line of credit agreement with the same bank that holds the note payable 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, 2019 and 2018. 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, 2019, the Organization held a letter of credit for $125,000.

In December 2019, the Organization entered into a new line of credit agreement with a different financial institution in the amount of $10,000,000 for short-term borrowings. The line of credit allows for advances at a variable interest rate, based on the LIBOR rate plus 120 basis points. This new line of credit will replace the existing $5,000,000 line of credit.

Note 7 – Commitments

The Organization leases office and distribution facilities under noncancelable operating lease agreements that extend through July 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:

2020	$ 166,910
2021	174,024
2022	95,095
	$ 436,029

Rental expense under noncancelable leases was $150,404 and $144,407 for the years ended September 30, 2019 and 2018, 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 adults who are blind, DeafBlind and blind 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.

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

	2019	2018
Support and revenue		
State and local government funding	$ 185,340	$ 182,352
Other	60,192	72,800
	245,532	255,152
Expenses		
Salaries and related expenses	1,635,436	1,551,078
Administrative expenses	1,007,980	1,016,143
DeafBlind retreat	170,572	180,125
	2,813,988	2,747,346
Excess of employee and community services expenses over support and revenue	$ (2,568,456)	$ (2,492,194)

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.

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:

	2019	2018
Cash and investments	$ 5,292,180	$ 5,444,821
Net assets at beginning of year	$ 5,444,821	$ 5,332,412
Contributions received, including in-kind	2,016,176	1,903,477
Interest income	100,977	106,045
Realized gain on investments, net	21,716	170,970
Unrealized gain (loss) on investments, net	(15,054)	1,657
Contribution to the Lighthouse	(1,526,965)	(1,308,836)
In-kind expense	(104,405)	(102,867)
Other income (expense)	(6,763)	(6,755)
Operating expenses allocated from the Lighthouse	(638,323)	(651,282)
Net assets at end of year	$ 5,292,180	$ 5,444,821

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, 2019 and 2018, 47% and 51%, respectively, of sales were to two customers. At September 30, 2019 and 2018, 67% and 76%, respectively, of accounts receivable was due from these customers.

Vendor concentrations – The Organization had two major vendors that made up 26% and 32% of cost of goods sold during the years ended September 30, 2019 and 2018, respectively. At September 30, 2019 and 2018, 39% and 45%, respectively, of accounts payable was due to these customers.

Note 12 – Functional Expenses

The Organization provides employment opportunities and resources to those who are blind. Program activities encompass all manufacturing and service businesses as well as employee and community services. Supporting activities are separated into management and general, and fundraising. No allocations are performed from supporting activities to program activities.

The following schedule excludes net sales earned from program activities, investment returns, and pension benefit obligation adjustments.

	2019			
		Supporting Activities		
	Program Activities	Management and General	Fundraising	Total Expenses
Materials	$ 55,239,173	$ -	$ -	$ 55,239,173
Personnel	24,596,921	5,639,429	-	30,236,350
Facilities and infrastructure	5,411,798	2,743,926	-	8,155,724
Professional services	790,734	1,520,220	-	2,310,954
Other	692,717	1,009,613	169,189	1,871,519
Total expenses	$ 86,731,343	$ 10,913,188	$ 169,189	$ 97,813,720

	2018			
		Supporting Activities		
	Program Activities	Management and General	Fundraising	Total Expenses
Materials	$ 44,054,841	$ -	$ -	$ 44,054,841
Personnel	22,212,787	5,644,643	-	27,857,430
Facilities and infrastructure	5,049,265	2,365,340	-	7,414,605
Professional services	658,507	1,212,355	-	1,870,862
Other	859,454	758,192	147,930	1,765,576
Total expenses	$ 72,834,854	$ 9,980,530	$ 147,930	$ 82,963,314

Note 13 – Liquidity

The Organization has a policy to structure its financial assets to be available as its obligations come due. As of September 30, 2019, the Organization has a line of credit in the amount of $5,000,000. No funds have been borrowed under this agreement. The Organization holds investments of marketable securities without restrictions with a long-term investment strategy, however these investments may be used as needed to meet general expenditure requirements in the short-term.

The table below presents financial assets available for general expenditures within one year at September 30, 2019:

Cash and cash equivalents	$ 7,326,597
Accounts receivable	7,896,406
Other receivables	395,061
Investments	14,178,809
Financial assets available to meet general expenditures over the next twelve months	$ 29,796,873

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