

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**SEPTEMBER 30, 2016 AND 2015**

This Page Left Intentionally Blank

## **INTRODUCTORY SECTION**

This Page Left Intentionally Blank

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**  
**Financial Statements**  
**For the Years Ended September 30, 2016 and 2015**

**Table of Contents**

	<b><u>Page</u></b>
<b>INTRODUCTORY SECTION</b>	
Table of Contents .....	i
<b>FINANCIAL SECTION</b>	
<b>Independent Auditor's Report</b> .....	1
<b>Financial Statements:</b>	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Functional Expenses .....	6
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9
<b>SINGLE AUDIT SECTION</b>	
Schedule of Findings and Questioned Costs .....	27
Section I - Summary of Auditor's Results Year Ended September 30, 2016 .....	27
Section II - Financial Statement Findings Year Ended September 30, 2016 .....	27
Section III - Federal Award Findings and Questioned Costs Year Ended September 30, 2016.....	27
Schedule of Expenditures of Federal Awards Year Ended September 30, 2016.....	28
Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2016.....	31
Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	33
Independent Auditor's Report On Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; And Report On The Schedule Of Expenditures Of Federal Awards Required By <i>Uniform Guidance</i> .....	35

This Page Left Intentionally Blank

## **FINANCIAL SECTION**

This Page Left Intentionally Blank

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Lighthouse for the Blind and Visually Impaired  
San Francisco, California

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Lighthouse for the Blind and Visually Impaired (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, respectively, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the 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 Organization'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Lighthouse for the Blind and Visually Impaired as of September 30, 2016 and 2015, 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2017, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Mazé & Associates*

Pleasant Hill, California  
February 7, 2017

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF FINANCIAL POSITION  
AS OF SEPTEMBER 30, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and cash equivalents (Note 2C)	\$5,245,888	\$2,339,752
Receivables (Note 2D):		
LightHouse industry sales, net	243,452	541,765
Government contracts	430,186	728,704
Other receivables	527,818	4,713
Prepays and deposits	65,679	103,915
Inventory (Note 3)	<u>194,675</u>	<u>188,934</u>
Total Current Assets	<u>6,707,698</u>	<u>3,907,783</u>
Non Current Assets:		
Investments (Note 4)	148,981,892	142,076,817
Loan receivable (Note 5)	11,630,500	
Construction in progress (Note 6)	226,761	9,397,748
Property and equipment, net of accumulated depreciation of \$2,980,740 and \$3,533,186, respectively (Note 6)	<u>6,607,552</u>	<u>4,648,814</u>
Subtotal for Property, Equipment, and Improvements	6,834,313	14,046,562
Total Non-Current Assets	<u>167,446,705</u>	<u>156,123,379</u>
Total Assets	<u><u>\$174,154,403</u></u>	<u><u>\$160,031,162</u></u>
LIABILITIES		
Current Liabilities:		
Accounts payable and other accrued expenses	\$532,116	\$894,972
Accrued vacation	278,867	151,467
Loan payable (Note 7)	939,000	
Lines of credit (Note 7)	<u>7,757,387</u>	<u>7,753,333</u>
Total Current Liabilities	<u>9,507,370</u>	<u>8,799,772</u>
Non Current Liabilities:		
Loan payable (Note 7)	<u>34,378,000</u>	
Total Liabilities	<u>43,885,370</u>	<u>8,799,772</u>
NET ASSETS (Note 2A)		
Unrestricted:		
Designated for operations	129,164,501	149,769,965
Temporarily restricted (Note 8)	1,021,799	1,378,692
Permanently restricted (Note 9)	<u>82,733</u>	<u>82,733</u>
Total Net Assets	<u>130,269,033</u>	<u>151,231,390</u>
Total Liabilities and Net Assets	<u><u>\$174,154,403</u></u>	<u><u>\$160,031,162</u></u>

See accompanying notes to financial statements

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Support:				
Government contracts and other grants	\$1,671,022	\$377,000		\$2,048,022
Donations and bequests	633,282	1,040,695		1,673,977
Total Support	<u>2,304,304</u>	<u>1,417,695</u>		<u>3,721,999</u>
Revenue:				
Sales, net of fees of \$46,253	1,423,933			1,423,933
Fees for service	926,656			926,656
Interest and dividend income (Note 4)	2,335,357	17		2,335,374
Rental income	165,986			165,986
Miscellaneous	4,770			4,770
Total Revenue	<u>4,856,702</u>	<u>17</u>		<u>4,856,719</u>
Net assets released from restrictions (Note 8)	1,774,605	(1,774,605)		
Total Support and Revenue	<u>8,935,611</u>	<u>(356,893)</u>		<u>8,578,718</u>
<b>OPERATING EXPENSES</b>				
Program service	30,437,632			30,437,632
Support services:				
General and administration	6,329,354			6,329,354
Fundraising	1,150,515			1,150,515
Total Expenses	<u>37,917,501</u>			<u>37,917,501</u>
Changes in net assets from operations	(28,981,890)	(356,893)		(29,338,783)
<b>OTHER GAINS AND LOSSES</b>				
Realized and unrealized gains (losses) on investments, net of fees (Note 4)	8,377,449			8,377,449
Loss on disposal of property	(1,023)			(1,023)
Total Other Gains and Losses	8,376,426			8,376,426
Change in net assets	(20,605,464)	(356,893)		(20,962,357)
Net Assets at Beginning of Year	<u>149,769,965</u>	<u>1,378,692</u>	<u>\$82,733</u>	<u>151,231,390</u>
Net Assets at End of Year	<u>\$129,164,501</u>	<u>\$1,021,799</u>	<u>\$82,733</u>	<u>\$130,269,033</u>

See accompanying notes to financial statements

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Support:				
Government contracts and other grants	\$1,671,829			\$1,671,829
Donations and bequests	112,634,310	\$131,809		112,766,119
Total Support	<u>114,306,139</u>	<u>131,809</u>		<u>114,437,948</u>
Revenue:				
Sales, net of fees of \$41,871	1,538,488			1,538,488
Fees for service	851,358			851,358
Interest and dividend income (Note 4)	2,832,015	11		2,832,026
Rental income	140,142			140,142
Miscellaneous	90,493			90,493
Total Revenue	<u>5,452,496</u>	<u>11</u>		<u>5,452,507</u>
Net assets released from restrictions (Note 8)	280,950	(280,950)		
Total Support and Revenue	<u>120,039,585</u>	<u>(149,130)</u>		<u>119,890,455</u>
<b>OPERATING EXPENSES</b>				
Program service	6,614,722			6,614,722
Support services:				
General and administration	1,728,308			1,728,308
Fundraising	745,280			745,280
Total Expenses	<u>9,088,310</u>			<u>9,088,310</u>
Changes in net assets from operations	110,951,275	(149,130)		110,802,145
<b>OTHER GAINS AND LOSSES</b>				
Realized and unrealized gains (losses) on investments, net of fees (Note 4)	(8,559,237)			(8,559,237)
Gain from sale of property	7,388,389			7,388,389
Total Other Gains and Losses	<u>(1,170,848)</u>			<u>(1,170,848)</u>
Change in net assets	109,780,427	(149,130)		109,631,297
Net Assets at Beginning of Year	<u>39,989,538</u>	<u>1,527,822</u>	<u>\$82,733</u>	<u>41,600,093</u>
Net Assets at End of Year	<u>\$149,769,965</u>	<u>\$1,378,692</u>	<u>\$82,733</u>	<u>\$151,231,390</u>

See accompanying notes to financial statements

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Program Services			Total Program Services
	Community and Information	Rehabilitation Services	LightHouse Enterprises	
FUNCTIONAL EXPENSES				
Personnel	\$1,536,012	\$1,447,617	\$526,276	\$3,509,905
Program costs	281,396	644,050	11,667	937,113
Cost of goods sold			470,190	470,190
Occupancy	510,166	247,155	160,564	917,885
Depreciation and amortization	77,949	7,928	138,861	224,738
Outside services	88,760	46,435	45,192	180,387
Postage and printing	15,854	7,780	5,504	29,138
Office supplies and equipment	67,655	14,505	23,285	105,445
Staff training, travel and conference	40,242	82,682	851	123,775
Insurance	59,950	31,716	20,649	112,315
Telephone	50,270	37,269	20,941	108,480
Bad debt, bank fee, interest and taxes	293,013	154,479	171,556	619,048
Shipping and delivery	1,223		5,298	6,521
Program marketing and public relations	27,491	3,898	3,134	34,523
Capital contribution	13,697,922	9,131,948	228,299	23,058,169
Board expenses				
Total Functional Expenses	<u>\$16,747,903</u>	<u>\$11,857,462</u>	<u>\$1,832,267</u>	<u>\$30,437,632</u>

See accompanying notes to financial statements

Supporting Services

<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total</u>
\$1,346,535	\$370,153	\$1,716,688	\$5,226,593
154,864	16,189	171,053	1,108,166
			470,190
140,303	69,667	209,970	1,127,855
6,084	3,074	9,158	233,896
582,020	65,556	647,576	827,963
6,653	6,516	13,169	42,307
16,966	5,374	22,340	127,785
33,596	10,395	43,991	167,766
24,338	12,296	36,634	148,949
11,288	5,602	16,890	125,370
118,987	60,617	179,604	798,652
			6,521
2,816	68,479	71,295	105,818
3,881,078	456,597	4,337,675	27,395,844
3,826		3,826	3,826
<u>\$6,329,354</u>	<u>\$1,150,515</u>	<u>\$7,479,869</u>	<u>\$37,917,501</u>

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Program Services			Total Program Services
	Community and Information	Rehabilitation Services	LightHouse Enterprises	
FUNCTIONAL EXPENSES				
Personnel	\$1,207,784	\$1,136,921	\$454,445	\$2,799,150
Program costs	325,148	501,665	6,025	832,838
Cost of goods sold			534,815	534,815
Occupancy	842,648	380,620	314,760	1,538,028
Depreciation and amortization	75,751	6,510	138,001	220,262
Outside services	84,736	39,210	31,776	155,722
Postage and printing	2,372	30	631	3,033
Office supplies and equipment	55,654	7,985	21,639	85,278
Staff training, travel and conference	32,457	69,646	350	102,453
Insurance	37,269	17,081	13,976	68,326
Telephone	16,680	14,024	8,264	38,968
Bad debt, bank fee, interest and taxes	92,364	43,277	68,631	204,272
Shipping and delivery			7,292	7,292
Program marketing and public relations	16,534	4,263	3,488	24,285
Board expenses				
Total Functional Expenses	<u>\$2,789,397</u>	<u>\$2,221,232</u>	<u>\$1,604,093</u>	<u>\$6,614,722</u>

See accompanying notes to financial statements

Supporting Services

Management and General	Fundraising	Total Supporting Services	Total
\$1,006,775	\$405,845	\$1,412,620	\$4,211,770
72,989	34,185	107,174	940,012
			534,815
380,315	181,646	561,961	2,099,989
5,921	3,551	9,472	229,734
123,941	21,184	145,125	300,847
5,314	37,442	42,756	45,789
11,950	5,734	17,684	102,962
20,582	5,164	25,746	128,199
15,531	9,317	24,848	93,174
32,184		32,184	71,152
39,453	25,208	64,661	268,933
			7,292
3,879	15,978	19,857	44,142
9,474	26	9,500	9,500
<u>\$1,728,308</u>	<u>\$745,280</u>	<u>\$2,473,588</u>	<u>\$9,088,310</u>

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	<u>(\$20,962,357)</u>	<u>\$109,631,297</u>
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	233,896	229,734
Realized loss (gain) on investments	(447,827)	(1,722,685)
Unrealized (gain) loss on investments	(7,929,622)	10,281,922
Decrease in accounts receivable	73,726	52,982
(Increase) in loan receivable	(11,630,500)	
Decrease in prepaid expenses	38,236	134,263
(Increase) in inventory	(5,741)	(977)
(Decrease) increase income in accounts payable	(362,856)	43,302
Increase (decrease) in accrued vacation	127,400	(27,397)
Total Adjustments	<u>(19,903,288)</u>	<u>8,991,144</u>
Net Cash Provided (Used) by Operating Activities	<u>(40,865,645)</u>	<u>118,622,441</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(81,824,245)	(270,173,568)
Sales of investments	65,299,336	147,152,282
Purchase of property, equipment and improvements	(2,193,447)	
Sale of property, equipment and improvements		8,147,055
Purchase of construction in progress	(226,761)	(2,277,193)
Capital contribution	27,395,844	
Net Cash Provided (Used by) Investing Activities	<u>8,450,727</u>	<u>(117,151,424)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	4,054	
Proceeds from loan payable	36,000,000	
Repayments of loan payable	(683,000)	
Net Cash Provided by Financing Activities	<u>35,321,054</u>	
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>2,906,136</u>	<u>1,471,017</u>
Cash and Cash Equivalents, Beginning of Year	<u>2,339,752</u>	<u>868,735</u>
Cash and Cash Equivalents, End of Year	<u><u>\$5,245,888</u></u>	<u><u>\$2,339,752</u></u>
<b>SUPPLEMENTARY INFORMATION:</b>		
Cash paid for interest	<u><u>\$750,552</u></u>	<u><u>\$210,537</u></u>

See accompanying notes to financial statements

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

### NOTE 1 – ORGANIZATION AND PROGRAMS

#### A. *Reporting Entity*

LightHouse for the Blind and Visually Impaired (hereafter, LightHouse or the Organization), a California nonprofit public benefit corporation founded in 1902, provides a variety of programs to adults, children and seniors who are blind or visually impaired at six locations in San Francisco and throughout Northern California.

#### B. *Programs*

##### *Community and Information Services*

- Founded in 1902, the Lighthouse for the Blind and Visually Impaired offers programs in six locations in San Francisco and throughout Northern California serving 3,000 blind and visually impaired individuals annually.
- Community Services offers cutting edge social, health promotion and educational classes for the blind. Some of the opportunities include, yoga, dance, a book club, and many exciting programs. Cultural, artistic and fitness programs bring people together for vital social engagement and to build a community of low vision and blind people.
- Blind teens find a place where blindness is normal at LightHouse Youth Programs. Activities include adventures in the great outdoors, volunteer service and mentorship opportunities
- A Counseling Services Program for the blind and low vision provides one-on-one counseling, peer counseling, group therapy sessions and LGBT group therapy.
- The Mad Lab department creates braille and tactile maps, accessible museum exhibitions, braille documents, and assists web developers in creating online content that is fully accessible.
- Since 2011 LightHouse Labs has been the premiere place where high tech corporations come to meet with blind scientists, engineers and savvy consumers to develop and critique and help develop new technologies.
- Superfest International Disability Film Festival, founded in the 1970s is the longest running disability film festival. Since 2012 Lighthouse has partnered with San Francisco State's Longmore Institute on Disability to coordinate this annual competition that celebrates cutting-edge cinema that portrays disability culture in all its diverse, complex and empowering facets. [www.Superfestfilm.com](http://www.Superfestfilm.com)

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

### NOTE 1 – ORGANIZATION AND PROGRAMS (Continued)

#### *Vision Rehabilitation Services*

- Blindness Skills provides training to people who are new to blindness or low vision to help them learn to use a white cane for mobility, read braille, utilize accessible technology and acquire adaptive methods for cooking and daily living.
- The LightHouse's Employment Immersion Program is our award winning job training program specifically designed for blind and visually impaired jobseekers in the Bay Area. An impressive 36% of graduates have found jobs, starting them on a path of self-reliance and life fulfillment.
- Enchanted Hills Camp for the Blind in Napa is one of the west's only camps for blind, visually impaired, deaf-blind and multi-disabled youth, adults and seniors. Enchanted Hills Camp is a place for blind campers to explore and create, gain courage, try new things and make lifelong friends.
- Deaf-Blind Services include a communications equipment and training program that is open to deaf-blind individuals throughout the state. We also host a special Enchanted Hills Camp session specifically for the deaf-blind.

#### *LightHouse Enterprises*

- At our San Francisco Headquarters LightHouse operates Adaptations, a brick-and-mortar store selling blind adaptive technologies and tools, such as white canes, guide dog supplies, magnifiers, talking watches and other items.
- For 25 years LightHouse Industries has provided direct employment at the Lighthouse for the Blind, Sirkin Center, our light manufacturing plant in San Leandro. 75% of all direct labor is performed by blind or visually impaired employees.

LightHouse has a diversified funding base made up of return on investments, a variety of government funding sources including grants, contracts, fees for services and sales, private donations and foundation funding. LightHouse is vulnerable to the inherent risks associated with revenue that is substantially dependent on government funding, public support, and contributions. The continued growth and well-being of LightHouse is contingent upon successful achievement of its long-term revenue raising goals.

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **A. Basis of Presentation**

Resources are classified for accounting and reporting purposes into three classes of net assets: unrestricted, temporarily restricted and permanently restricted, according to externally imposed restriction as follows:

*Unrestricted net assets*- Net assets that are not subject to any donor-imposed restrictions.

*Temporarily restricted net assets*- Net assets resulting (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishment that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

*Permanently restricted net assets*- Net assets resulting (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) from other assets enhancements and diminishment that are subject to the same kinds of stipulations, and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

#### **B. Method of Accounting**

The financial statements of the Organization are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

#### **C. Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

#### **D. Receivables**

Receivables are recorded net of an allowance for expected losses. The allowance is recorded based on estimate of the expected collectability of the amounts.

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *E. Contributions*

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

#### *F. Property, Equipment and Improvements*

The Organization records property, equipment and improvements in excess of \$5,000 at historical cost or, if donated, at fair market value at the date of donation. Depreciation is determined on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged against income as incurred.

#### *G. Functional Allocation of Expenses*

The Organization allocated its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly. Indirect costs are allocated among program and support services on a basis proportionate to the direct staff time or other method which best measures the relative degree of benefit.

#### *H. Sales Tax*

The State of California imposes a sales tax on all sales to nonexempt customers. The LightHouse collects that sales tax from customers and remits the entire amount to the State. LightHouse's accounting policy is to include the tax collected and remitted to the State in accounts payable and other accrued expenses.

#### *I. Income Taxes*

The Organization is exempt from income tax under Section 501(c)(3) of U.S. the Internal Revenue Code. Accordingly, no provision for income taxes has been provided in these financial statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(1). Unrelated business income, if any, may be subject to income tax. The Organization paid no taxes on unrelated business income in the years ended September 30, 2016 or 2015.

Generally accepted accounting principles require the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in the organization's tax returns. Management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Organization's tax returns will not be challenged by the taxing authorities and that the Organization will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, the Organization's tax returns remain open for federal income tax examination for three years from the date of filing.

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended September 30, 2016 and 2015**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principle requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**K. Advertising Costs**

Advertising costs, if any, are expensed as incurred.

**L. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards set a framework for measuring fair value using a three tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs that are not observable in the market and reflect the management's judgment about the assumptions that market participants would use in pricing the asset or liability.

**NOTE 3 – INVENTORY**

Inventory items are held for sale or resale and are stated at the lower of cost or market value and determined on a first-in, first-out basis:

Description	2016	2015
Adaptations Store Inventory	\$60,381	\$37,587
LightHouse Industries materials inventory	134,294	151,347
Total	<u>\$194,675</u>	<u>\$188,934</u>

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

### NOTE 4 – INVESTMENTS

The following are the major categories of marketable equity securities measured at fair value on a recurring basis during the years ended September 30, 2016 and 2015, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Description</u>	Fair Value Measurements Using			Total
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>2016:</u>				
Mutual funds - Equity funds		\$64,530,945		\$64,530,945
Mutual funds - Bond funds		33,918,778		33,918,778
Mutual funds - Real Estate Investment Trust		5,087,072		5,087,072
Corporate Bonds	\$2,750,513			2,750,513
Money Market Funds	13,242,393			13,242,393
Equity Investment in The Lighthouse Member LLC			\$29,452,191	29,452,191
	\$15,992,906	\$103,536,795	\$29,452,191	\$148,981,892
<u>2015:</u>				
Mutual funds - Equity funds		\$64,269,456		\$64,269,456
Mutual funds - Bond funds		36,688,584		36,688,584
US Treasury Bills		10,900,229		10,900,229
Corporate Bonds	\$2,737,863			2,737,863
Money Market Funds	27,380,685			27,380,685
Other	100,000			100,000
	\$30,218,548	\$111,858,269		\$142,076,817

Mutual Funds are reported using level 2 inputs based on values provided by the investment advisors, and the equity investment in the Lighthouse Member LLC is reported using level 3 inputs based on the closing sales price of the building. In accordance with the \$36 million term loan from U.S. Bank (see Note 7), the Organization held as collateral \$52,645,130 in investments to collateralize the term loan. The collateral is required to exceed the outstanding loan balance, and is monitored on a monthly basis by U.S. Bank.

The following summarizes the investment income during the years ended September 30, 2016 and 2015:

	2016	2015
Interest and dividend income	\$2,335,374	\$2,832,026
Realized gain on investments	447,827	1,722,685
Unrealized gain/(loss) on investments	7,929,622	(10,281,922)
Subtotal	8,377,449	(8,559,237)
Total investment income, net	\$10,712,823	(\$5,727,211)

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

### NOTE 5 – LOAN RECEIVABLE

On December 9, 2015, the Organization entered into a loan agreement with USBCDC Investment Fund 105, LLC (“Borrower”) in the amount of \$11,630,500. The loan was entered into to obtain a New Market Tax Credit under Section 45D of the Internal Revenue Code. The Borrower used the proceeds to refinance a portion of the \$15,000,000 equity investment in the ESIC New Markets Partners LXII Limited Partnership, (the “Enterprise Community Development Entity or Enterprise CDE”) and fund a portion of the \$2,500,000 equity investment in USBCDE Sub-CDE 139, LLC, (the “USB CDE Investment”), return a portion of the capital contributions previously made by U.S. Bancorp Community Development Corporation in the amount of \$4,105,500, and pay various fees in connection with the New Market Tax Credit transaction. The outstanding principal balance of the loan funds will accrue interest at a rate of 1.465827% per annum, payable quarterly. Principal payments will not become due until March 15, 2023, after the New Market Tax Credit compliance period has ended, at which time the Borrower shall make a one-time payment to the Organization in the amount of distributions by the Community Development Entities. The loan matures on December 9, 2045. The balance of the loan as of September 30, 2016 was \$11,630,500.

### NOTE 6 – PROPERTY, EQUIPMENT, AND IMPROVEMENTS

Property, equipment and improvements consisted of the following at September 30, 2016 and 2015:

	Balance at September 30, 2015	Additions	Retirements	Transfers	Adjustments	Balance at September 30, 2016
Non-depreciable:						
Land	\$974,290					\$974,290
Land improvements	310,777	\$240,784				551,561
Construction in progress	9,397,748	2,877,293	(\$50,809)	(\$196,945)	(\$11,800,526)	226,761
Total non-depreciable	10,682,815	3,118,077	(50,809)	(196,945)	(11,800,526)	1,752,612
Depreciable:						
Building and improvements	4,309,046	30,560	(4,500)	55,082		4,390,188
Leasehold Improvements		37,899				37,899
Furniture and equipment	2,587,887	1,688,678	(784,074)	141,863		3,634,354
Total depreciable	6,896,933	1,757,137	(788,574)	196,945		8,062,441
Less: Accumulated depreciation	(3,533,186)	(235,105)	787,551			(2,980,740)
Property, equipment and improvements, net	\$14,046,562	\$4,640,109	(\$51,832)		(\$11,800,526)	\$6,834,313

Depreciation expense for the years ended September 30, 2016 and 2015 was \$235,105 and \$229,734, respectively.

In fiscal year 2016, the Organization formed 1155 Market QALICB, a California nonprofit corporation, which will retain ownership of the new headquarters during the mandated 7-year New Market Tax Credit compliance period. Therefore, in fiscal year 2016, the Organization transferred the construction in progress related to the new headquarters in the amount of \$11,800,526 to 1155 Market QALICB. Under this structure, the Organization will lease the headquarters from 1155 Market QALICB, until the 7-year compliance period has lapsed, and the headquarters will then be transferred to the Organization. For additional information on the lease, see lease commitments in Footnote 10.

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended September 30, 2016 and 2015**

**NOTE 7 – LONG-TERM DEBT**

**A. Line of Credit**

On December 2, 2015, the Organization entered into a loan agreement for a revolving line of credit up to \$8,000,000. The loan is unsecured and the unpaid principal balance bears interest at the rate of LIBOR plus 1.50%, which is repriced monthly. Interest-only payments are due monthly, and the principal and unpaid accrued interest is due upon maturity of the loan on December 1, 2016. On September 30, 2016 and 2015, the unpaid principal balance was \$7,757,387 and \$7,753,333, respectively.

The future minimum liability for the line of credit is shown below:

For the Year Ending September 30	Principal
2017	\$7,757,387

**B. Loan Payable**

The New Market Tax Credit was enacted as part of the Community Renewal Tax Relief Act of 2000 and was designed to stimulate investment in new private capital, which would in turn facilitate economic and community development in distressed communities. In connection with the New Market Tax Credit transaction, on December 2, 2015, the Organization entered into a loan agreement for a term loan in the amount of \$36,000,000. The loan is unsecured and the unpaid principal balance bears interest at the rate of LIBOR plus 1.83%, which is repriced monthly. Payments are due monthly, and the unpaid principal and unpaid accrued interest is due upon maturity of the loan on March 1, 2023. On September 30, 2016, the unpaid principal balance was \$35,317,000.

The future minimum liability for the term is shown below:

For the Year Ending September 30	Principal
2017	\$939,000
2018	972,000
2019	1,008,000
2020	1,044,000
2021	1,081,000
2022 - 2023	30,273,000
	35,317,000
Less: Current Portion	(939,000)
Non-Current Portion	\$ 34,378,000

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

### NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted by time and/or purpose and consisted of the following at September 30, 2016 and 2015:

	2016	2015
Enchanted Hills Camp	\$854,697	\$1,209,636
Market Street office space	145,913	145,913
Rehabilitation services	21,189	15,754
Client support services		1,834
Other		5,555
	<u>\$1,021,799</u>	<u>\$1,378,692</u>

For the years ended September 30, 2016 and 2015, net assets were released from restriction from various donor sources, totaling \$1,744,605 and \$280,950, respectively.

### NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENTS

The Organization's endowment consists of donor restricted balances established for a variety of purposes held in one savings account and the operating bank account. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Law - The Board of Directors of the LightHouse has interpreted the California State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair market value of the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if applicable. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated expenditure by the organization in a manner consistent with the standard of prudence prescribed in SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciate of investments
6. Other resources of the organization
7. The investment policies of the organization

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended September 30, 2016 and 2015**

**NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (Continued)**

<u>September 30, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds			\$82,733	\$82,733
Total Funds			\$82,733	\$82,733

<u>September 30, 2015</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds			\$82,733	\$82,733
Total Funds			\$82,733	\$82,733

Changes in Endowment Net Assets for the Fiscal Years Ended September 30, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 30, 2014			\$82,733	\$82,733
Investment return:				
Interest and dividends		\$11		11
Total investment return		11		11
Contributions				
Appropriation for endowment assets for expenditure		(11)		(11)
Endowment net assets, September 30, 2015			82,733	82,733
Investment return:				
Interest and dividends		17		17
Total investment return		17		17
Contributions				
Appropriation for endowment assets for expenditure		(17)		(17)
Endowment net assets, September 30, 2016			\$82,733	\$82,733

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

### **NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (Continued)**

The balance of Permanently Restricted Net Assets at September 30, 2016 and 2015 was \$82,733. The funds are held in a perpetual endowment fund and are required to be retained permanently to benefit the Multi-disabled Adult Campers program. The Organization did not hold any temporarily restricted endowment funds as of September 30, 2016 and 2015.

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the organization to retain as a fund of perpetual duration. As of September 30, 2016 and 2015, there were no deficiencies in value.

#### Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a constant stream of funding for annual operating needs supported by its endowment while seeking to preserve the real (i.e., inflation adjusted) purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Finance Committee, the endowment assets are invested in a manner that is intended to produce results that (1) meet the expected rate of return as dictated by the asset allocation in place and (2) exceed a weighted index of the total asset allocation and component benchmarks over rolling five-year periods by an appropriate amount (annualized, net of fees, over a full market cycle). In addition to rolling five-year periods, rolling three-year periods will be monitored for trends. Actual returns in any given year may vary.

#### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return, the Organization targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives with prudent risk constraints.

#### Spending Policy and how the Investment Objectives Relate to Spending Policy

The Organization currently distributes all income from endowment assets.

### **NOTE 10 – OPERATING LEASES AND SERVICE AGREEMENTS**

The Organization has entered into the following operating leases:

- The Organization leases office space in Eureka, California, under a noncancellable lease that expired September 30, 2013, and is month-to-month thereafter. The lease called for monthly rent payments of \$436 to be adjusted annually based on the area Consumer Price Index (CPI), plus \$100 per month for common area expenses. During the years ended September 30, 2016 and 2015, rent expense under this lease was \$6,432 and \$6,432, respectively.

## LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

### NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

#### **NOTE 10 – OPERATING LEASES AND SERVICE AGREEMENTS (Continued)**

- The Organization leases office space in Berkeley, California, under a 60-month noncancellable lease that expired October 31, 2015, and paid on a month-to-month basis through October 31, 2016, at which time, the Organization entered into a new lease agreement on November 1, 2016, which expires October 31, 2021. The new lease calls for base monthly rent payments of \$10,370 to increase by CPI annually, plus an allocation of overhead costs. During the years ended September 30, 2016 and 2015, rent expense under this lease was \$50,126 and \$46,437, respectively.
- The Organization leases office space in San Rafael, California, under a 48-month noncancellable lease that expires December 31, 2018. The lease calls for base monthly rent payments of \$2,550, to increase by CPI annually. During the years ended September 30, 2016 and 2015, rent expense under this lease was \$27,593 and \$26,755, respectively.
- In connection with the relocation of the Organization's headquarters in fiscal 2016, the Organization initiated a lease pursuant to the Second Agreement to the Purchase Agreement for the previous headquarters at 214 Van Ness Avenue, San Francisco, California. The lease agreement called for rent payments of \$30,000, and was on a month-to-month basis until the Organization moved into its new headquarters located at 1155 Market Street, San Francisco, California on May 1, 2016. During the years ended September 30, 2016 and 2015, rent expense under this lease was \$210,000 and \$90,000, respectively.
- Additionally, in connection with the purchase of the new headquarters at 1155 Market Street, San Francisco, California, the Organization entered into a lease agreement in fiscal year 2014 for floors 9, 10, and 11 prior to the completion of the New Market Tax Credit transaction. The lease called for base monthly rent payments of \$117,928 for the period June 1, 2014 through May 30, 2015 and \$121,466 for the period June 1, 2015 through May 30, 2016, plus an allocation of operating costs. Additionally, the lease provided for a reduced purchase option price based on the date of the execution of the New Market Tax Credit transaction, which occurred on December 9, 2015; the lease was subsequently cancelled. During the years ended September 30, 2016 and 2015, rent expense under this lease was \$336,223 and \$2,156,673, respectively.
- Finally, to remain in compliance with New Market Tax Credit requirements as provided in Section 45D of the Internal Revenue Code, the Organization transferred the construction in progress related to the renovations of the new headquarters at 1155 Market Street, San Francisco, California to 1155 Market QALICB, a California nonprofit corporation (as discussed in Note 6). As 1155 Market QALICB will retain ownership of the property through the 7-year compliance period, the Organization entered into a lease agreement on December 9, 2015 to lease floors 9, 10 and 11 of the new headquarters from 1155 Market QALICB. The lease agreement calls for annual rent payments of \$90,000 up to \$855,000 and expires on December 31, 2045, and is cancellable upon the transfer of the property, which is expected to occur after the 7-year New Market Tax Credit compliance period.

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended September 30, 2016 and 2015**

**NOTE 10 – OPERATING LEASES AND SERVICE AGREEMENTS (Continued)**

Future minimum payments under these noncancellable lease and service agreements are as follows:

<u>Fiscal Year Ending:</u>	
2017	\$352,025
2018	346,442
2019	320,296
2020	311,440
2021	311,440
2022 - 2026	2,782,370
2027 - 2031	4,275,000
2032 - 2036	4,275,000
2037 - 2041	4,275,000
2042 - 2046	3,562,500
	<u>\$20,811,513</u>

**NOTE 11 – RETIREMENT PLANS**

The Organization has adopted a 401(k) retirement plan, which covers all employees. Effective January 1, 2011, LightHouse makes matching contributions equal to 100% of the participant contribution during the plan year, not to exceed 7% of each participant's compensation, for all eligible participants who completed at least one year of service with at least 1,000 hours in that 12 month period. Each year, the Board of Directors determines the amount of the employer match. The plan vesting schedule is determined by the years of service with 100% vesting after 6 years of service. During the years ended September 30, 2016 and 2015, the Board approved a contribution to the plan which totaled \$83,160 and \$69,337 respectively.

LightHouse also adopted a 457(b) plan effective March 1, 2011. The plan is funded by employee contributions, and the Organization made no contributions toward this plan during the years ended September 30, 2016 and 2015.

**NOTE 12 – CONTINGENCIES**

The Organization receives grants and contracts from various County, State, and Federal agencies. These grants and contracts are subject to inspect and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be estimated and, accordingly, the Organization has no provisions for the possible disallowance of program costs. It is management's opinion that all grants and contract conditions have been met.

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2016 and 2015

### **NOTE 13 – RISKS, UNCERTAINTIES AND CONCENTRATIONS**

The Organization relies on a significant amount of funding received in the form of donations and grants from individuals and foundations as well as investment income to support its operations. The current global financial markets and discussion of a U.S. economic downturn may have an impact on the level of funding provided by these funding sources and the market value of marketable equity securities held by the Organization. While it is impracticable to determine the impact of these events, management is taking steps to address potential changes in funding levels and reduce the Organization's exposure to impact from these events.

LightHouse has a contract to produce toilet tissue product in specified quantities for the U.S. government that expires October 10, 2016. For the years ended September 30, 2016 and 2015, net sales under the contract were \$1,168,119 and \$1,404,514 representing 92% and 96% of total LightHouse Industries sales, respectively. In addition, at September 30, 2016 and 2015, 85% and 92% respectively, of LightHouse Industries accounts receivable were due from the U.S. Government.

### **NOTE 14 – EXCESS OF FDIC**

As of September 30, 2016, the Organization had exceeded the Federal Depository Insurance Corporation limit cash limit of \$250,000 on its depository accounts. At September 30, 2016, the Organization had approximately \$4,585,268 on deposit in excess of federally insured limits.

### **NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 7, 2017, the date on which the financial statements were available to be issued. Management concluded that the following subsequent events have occurred since September 30, 2016 that require disclosure in the financial statements.

**SINGLE AUDIT SECTION**

This Page Left Intentionally Blank

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2016**

**SECTION I—SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiency(ies) identified?   X   Yes        None Reported

Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiency(ies) identified?        Yes   X   None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?   X   Yes        No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program</u>
32.U01	Federal Communications Commission - National Deaf-Blind Equipment Distribution Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes        No

# LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2016

### SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose or material weaknesses or instances of noncompliance material to the basic financial statements. Our audit did disclose a significant deficiency. We have also issued a separate Memorandum on Internal Control dated February 7, 2017 which is an integral part of our audits and should be read in conjunction with this report.

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings and questioned costs required to be reported in accordance with *Uniform Guidance*.

#### SA2016-001 - Subrecipient Agreement

- **CFDA number:** 32.U01
- **CFDA Title:** National Deaf-Blind Equipment Distribution Program
- **Name of Federal Agency:** Federal Communications Commission
- **Criteria:** 2 CFR § 200.331(a) outlines that every sub-award requires proper documentation between the recipient and subrecipient of a federal award. The documentation should clearly identify an agreement that the funding is a federal award, that the subrecipient will adhere to requirements imposed by the federal award, and also acknowledge direct and indirect costs that are allowable and unallowable. The LightHouse is the sole recipient of NDBEDP's California pilot program funding and the pass-through entity for Helen Keller National Center (HKNC). Therefore, LightHouse needs to convey an agreement between HKNC and identify requirements of federal awards for subrecipients.

Implicit in the agreement is the requirement for the subrecipient to establish the necessary controls to ensure performance, including adequate policies and procedures for tracking and tracing reimbursement costs.

- **Condition:** The LightHouse currently only has a verbal agreement with HKNC. Since NDBEDP is established as a pilot program to distribute equipment for the deaf and blind, it was assumed that the federal award was temporary. According to the Accounting Supervisor and Director of Rehabilitation, the verbal agreement between Lighthouse and HKNC was not formally documented in writing despite the NDBEDP's annual pilot program renewal notice.

Per testing of expenditure and eligibility, we found no deficiencies and deviations from the NDBEDP award agreement.

- **Effect:** The LightHouse does not have written documentation of a sub-award agreement per 2 CFR § 200.331(a). Therefore, Lighthouse is at risk of noncompliance per § 200.338, which can lead to the FCC's decision to temporarily or permanently withhold reimbursement of expenditures.
- **Cause:** The NDBEDP's decision to make Lighthouse the sole recipient of federal award and pass-through entity for HKNC, along with the fact that NDBEDP was a pilot program, lead to the verbal agreement made between Lighthouse and HKNC.
- **Identification as a repeat finding:** New for 2016

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended September 30, 2016**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**SA2016-001 - Subrecipient Agreement (Continued)**

- **Recommendation** The LightHouse should create a written agreement with HKNC. The agreement should clearly identify rules outlined per 2 CFR § 200.331(a).
- **View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the Organization.

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended September 30, 2016

<u>Federal Grantor/ Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Pass-Through To Subrecipients</u>	<u>Federal Expenditures</u>
Federal Communications Commission <b>Direct</b> Programs				
National Deaf-Blind Equipment Distribution Program (NDBEDP)	32.U01	-	<u>\$91,919</u>	<u>\$937,152</u>
Subtotal Federal Communications Commission <b>Direct</b> Programs			<u>91,919</u>	<u>937,152</u>
Department of Education <b>Pass-Through</b> Programs From:				
State of California				
Independent Living Services for Older Individuals Who are Blind	84.177	C5160-101-0890		<u>407,289</u>
Subtotal Department of Education <b>Pass-Through</b> Programs				<u>407,289</u>
Total Expenditures of Federal Awards			<u>\$91,919</u>	<u>\$1,344,441</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

**LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended September 30, 2016**

**NOTE 1-REPORTING ENTITY**

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the Lighthouse for the Blind and Visually Impaired, California and its component units as disclosed in the notes to the Basic Financial Statements.

**NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The Organization's revenue and expenses are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

**NOTE 3 – INDIRECT COST ELECTION**

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

This Page Left Intentionally Blank

**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Lighthouse for the Blind and Visually Impaired  
San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Lighthouse for the Blind and Visually Impaired, as of and for the year ended September 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated February 7, 2017 which is an integral part of our audits should be read in conjunction with this report.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Maze & Associates". The signature is written in a cursive, flowing style.

Pleasant Hill, California  
February 7, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE *UNIFORM GUIDANCE***

To the Board of Directors  
Lighthouse for the Blind and Visually Impaired  
San Francisco, California

***Report on Compliance for Each Major Federal Program***

We have audited Lighthouse for the Blind and Visually Impaired for compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2016. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items SA2016-001. Our opinion on each major federal program is not modified with respect to these matters.

### ***Organization's Response to Findings***

The Organization's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control Over Compliance***

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance***

We have audited the financial statements of the Organization as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements. We issued our report thereon dated February 7, 2017 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Mazze & Associates*

Pleasant Hill, California  
February 7, 2017

This Page Left Intentionally Blank