

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016**

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, 2017 and 2016

Table of Contents

	<u>Page</u>
INTRODUCTORY SECTION	
Table of Contents	i
FINANCIAL SECTION	
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	10
Notes to Financial Statements	11
SINGLE AUDIT SECTION	
Schedule of Findings and Questioned Costs	27
Section I - Summary of Auditor's Results Year Ended September 30, 2017	27
Section II - Financial Statement Findings Year Ended September 30, 2017	28
Section III - Federal Award Findings and Questioned Costs Year Ended September 30, 2017	28
Schedule of Expenditures of Federal Awards Year Ended September 30, 2017	29
Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2017	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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2018, 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
April 3, 2018

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 2C)	\$543,650	\$5,245,888
Receivables (Note 2D):		
LightHouse industry sales, net	252,475	243,452
Government contracts	330,301	430,186
Other receivables	204,896	527,818
Prepays and deposits	131,107	65,679
Inventory (Note 3)	<u>261,675</u>	<u>194,675</u>
Total Current Assets	<u>1,724,104</u>	<u>6,707,698</u>
Non Current Assets:		
Investments (Note 4)	161,408,745	148,981,892
Loans receivable (Note 5)	11,786,152	11,630,500
Property and equipment, net of accumulated depreciation of \$3,512,137 and \$2,980,740, respectively (Note 6)	<u>7,219,875</u>	<u>6,834,313</u>
Subtotal for Property, Equipment, and Improvements	7,219,875	6,834,313
Total Non-Current Assets	<u>180,414,772</u>	<u>167,446,705</u>
Total Assets	<u><u>\$182,138,876</u></u>	<u><u>\$174,154,403</u></u>
LIABILITIES		
Current Liabilities:		
Accounts payable and other accrued expenses	\$608,320	\$532,116
Accrued vacation	260,812	278,867
Loan payable (Note 7)	939,000	939,000
Lines of credit (Note 7)		7,757,387
Deferred revenue	<u>33,160</u>	
Total Current Liabilities	<u>1,841,292</u>	<u>9,507,370</u>
Non Current Liabilities:		
Loan payable (Note 7)	<u>29,976,500</u>	<u>34,378,000</u>
Total Liabilities	<u>31,817,792</u>	<u>43,885,370</u>
NET ASSETS (Note 2A)		
Unrestricted:		
Designated for operations	149,847,137	129,164,501
Temporarily restricted (Note 8)	473,947	1,021,799
Permanently restricted (Note 9)		<u>82,733</u>
Total Net Assets	<u>150,321,084</u>	<u>130,269,033</u>
Total Liabilities and Net Assets	<u><u>\$182,138,876</u></u>	<u><u>\$174,154,403</u></u>

See accompanying notes to financial statements

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Support:				
Government contracts and other grants	\$1,846,317	\$450		\$1,846,767
Donations and bequests	13,102,896	23,506		13,126,402
Total Support	<u>14,949,213</u>	<u>23,956</u>		<u>14,973,169</u>
Revenue:				
Sales, net of fees of \$51,448	1,535,247			1,535,247
Fees for service	1,116,930			1,116,930
Interest and dividend income (Note 4)	2,729,047			2,729,047
Rental income	185,963			185,963
Miscellaneous	808,328			808,328
Total Revenue	<u>6,375,515</u>			<u>6,375,515</u>
Net assets released from restrictions (Note 8)	654,541	(571,808)	(\$82,733)	
Total Support and Revenue	<u>21,979,269</u>	<u>(547,852)</u>	<u>(82,733)</u>	<u>21,348,684</u>
OPERATING EXPENSES				
Program service	10,286,632			10,286,632
Support services:				
General and administration	1,724,435			1,724,435
Fundraising	792,663			792,663
Total Expenses	<u>12,803,730</u>			<u>12,803,730</u>
Changes in net assets from operations	9,175,539	(547,852)	(82,733)	8,544,954
OTHER GAINS AND LOSSES				
Realized and unrealized gains (losses) on investments, net of fees (Note 4)	11,507,097			11,507,097
Total Other Gains and Losses	11,507,097			11,507,097
Changes in net assets	20,682,636	(547,852)	(82,733)	20,052,051
Net Assets at Beginning of Year	<u>129,164,501</u>	<u>1,021,799</u>	<u>82,733</u>	<u>130,269,033</u>
Net Assets at End of Year	<u>\$149,847,137</u>	<u>\$473,947</u>		<u>\$150,321,084</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
SUPPORT AND REVENUE				
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>
OPERATING EXPENSES				
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)
OTHER GAINS AND LOSSES				
Realized and unrealized gains (losses) on investments, net of fees (Note 4)	8,377,449			8,377,449
Gain from sale of property	(1,023)			(1,023)
Total Other Gains and Losses	<u>8,376,426</u>			<u>8,376,426</u>
Changes 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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Services			Total Program Services
	Community and Information	Rehabilitation Services	LightHouse Enterprises	
FUNCTIONAL EXPENSES				
Personnel	\$2,112,131	\$2,277,954	\$888,527	\$5,278,612
Program costs	376,889	501,460	4,111	882,460
Cost of goods sold			479,576	479,576
Occupancy	350,311	324,325	109,643	784,279
Depreciation and amortization	210,965	92,552	178,392	481,909
Outside services	224,124	185,111	108,705	517,940
Postage and printing	43,610	34,568	15,917	94,095
Office supplies and equipment	57,815	9,351	37,744	104,910
Staff training, travel and conference	50,593	75,384	3,594	129,571
Insurance	38,713	31,188	14,357	84,258
Telephone	36,940	35,541	17,627	90,108
Bad debt, bank fee, interest and taxes	563,117	429,471	265,101	1,257,689
Shipping and delivery	2,261	470	4,232	6,963
Program marketing and public relations	92,184	1,633	445	94,262
Board expenses				
Total Functional Expenses	<u>\$4,159,653</u>	<u>\$3,999,008</u>	<u>\$2,127,971</u>	<u>\$10,286,632</u>

See accompanying notes to financial statements

Supporting Services

Management and General	Fundraising	Total Supporting Services	Total
\$927,746	\$517,061	\$1,444,807	\$6,723,419
152,197	30,354	182,551	1,065,011
			479,576
47,753	23,493	71,246	855,525
32,368	17,120	49,488	531,397
239,813	38,548	278,361	796,301
12,933	18,679	31,612	125,707
81,584	7,853	89,437	194,347
40,994	6,872	47,866	177,437
10,907	5,769	16,676	100,934
7,219	3,522	10,741	100,849
158,815	80,997	239,812	1,497,501
			6,963
	42,395	42,395	136,657
12,106		12,106	12,106
<u>\$1,724,435</u>	<u>\$792,663</u>	<u>\$2,517,098</u>	<u>\$12,803,730</u>

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

Management and General	Fundraising	Total Supporting Services	Total
\$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
7,293	3,074	10,367	235,105
582,020	65,556	647,576	827,963
6,653	6,516	13,169	42,307
15,757	5,374	21,131	126,576
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 CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	<u>\$20,052,051</u>	<u>(\$20,962,357)</u>
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	531,397	233,896
Realized loss (gain) on investments	(379,851)	(447,827)
Unrealized (gain) loss on investments	(11,127,246)	(7,929,622)
Decrease in accounts receivable	413,784	73,726
(Increase) in loan receivable	(155,652)	(11,630,500)
(Increase) decrease in prepaid expenses	(65,428)	38,236
(Increase) in inventory	(67,000)	(5,741)
Increase (decrease) in accounts payable	76,204	(362,856)
(Decrease) increase in accrued vacation	(18,055)	127,400
Increase in deferred revenue	33,160	
Total Adjustments	<u>(10,758,687)</u>	<u>(19,903,288)</u>
Net Cash Provided (Used) by Operating Activities	<u>9,293,364</u>	<u>(40,865,645)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(24,684,383)	(81,824,245)
Sales of investments	23,764,627	65,299,336
Purchase of property, equipment and improvements	(812,279)	(2,193,447)
Purchase of construction in progress	(104,680)	(226,761)
Capital contribution		27,395,844
Net Cash Provided (Used) by Investing Activities	<u>(1,836,715)</u>	<u>8,450,727</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit		4,054
Proceeds from loan payable		36,000,000
Repayments of loan payable	(4,401,500)	(683,000)
Repayments of line of credit	(7,757,387)	
Net Cash Provided (Used) by Financing Activities	<u>(12,158,887)</u>	<u>35,321,054</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,702,238)	2,906,136
Cash and Cash Equivalents, Beginning of Year	<u>5,245,888</u>	<u>2,339,752</u>
Cash and Cash Equivalents, End of Year	<u><u>\$543,650</u></u>	<u><u>\$5,245,888</u></u>
SUPPLEMENTARY INFORMATION:		
Cash paid for interest		<u><u>\$750,552</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, 2017 and 2016

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

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016

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, 2017 or 2016.

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, 2017 and 2016

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	2017	2016
Adaptations Store Inventory	\$93,474	\$60,381
LightHouse Industries materials inventory	168,201	134,294
Total	\$261,675	\$194,675

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

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, 2017 and 2016, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Description	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>2017:</u>				
Mutual funds - Equity funds		\$83,480,306		\$83,480,306
Mutual funds - Bond funds		36,665,756		36,665,756
Mutual funds - Real Estate Investment Trust		5,620,190		5,620,190
Corporate Bonds	\$2,598,339			2,598,339
Money Market Funds	4,669,324			4,669,324
Equity Investment in The Lighthouse Member LLC			\$28,374,830	28,374,830
	<u>\$7,267,663</u>	<u>\$125,766,252</u>	<u>\$28,374,830</u>	<u>\$161,408,745</u>
<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
	<u>\$15,992,906</u>	<u>\$103,536,795</u>	<u>\$29,452,191</u>	<u>\$148,981,892</u>

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 \$61,531,682 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, 2017 and 2016:

	2017	2016
Interest and dividend income	<u>\$2,729,047</u>	<u>\$2,335,374</u>
Realized gain on investments	379,851	447,827
Unrealized gain/(loss) on investments	<u>11,127,246</u>	<u>7,929,622</u>
Subtotal	<u>11,507,097</u>	<u>8,377,449</u>
Total investment income, net	<u>\$14,236,144</u>	<u>\$10,712,823</u>

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

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, 2017 and 2016 was \$11,786,152 and \$11,630,500, respectively.

NOTE 6 – PROPERTY, EQUIPMENT, AND IMPROVEMENTS

Property, equipment and improvements consisted of the following at September 30, 2017:

	Balance at September 30, 2016	Additions	Transfers	Balance at September 30, 2017
Non-depreciable:				
Land	\$974,290			\$974,290
Land improvements	551,561	\$13,451	\$86,745	651,757
Construction in progress	226,761	104,680	(226,761)	104,680
Total non-depreciable	1,752,612	118,131	(140,016)	1,730,727
Depreciable:				
Building and improvements	4,390,188	581,008	140,016	5,111,212
Leasehold Improvements	37,899	191,462		229,361
Furniture and equipment	3,634,354	26,358		3,660,712
Total depreciable	8,062,441	798,828	140,016	9,001,285
Less: Accumulated depreciation	(2,980,740)	(531,397)		(3,512,137)
Property, equipment and improvements, net	\$6,834,313	\$385,562		\$7,219,875

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

NOTE 6 – PROPERTY, EQUIPMENT, AND IMPROVEMENTS

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

	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)	(196,945)	(\$11,800,526)	\$6,834,313

Depreciation expense for the years ended September 30, 2017 and 2016 was \$531,397 and \$235,105, respectively.

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. The outstanding balance of \$7,757,387 was fully repaid in February 2017.

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, 2017 and 2016, the unpaid principal balance was \$30,915,500 and \$35,317,000, respectively.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 7 – LONG-TERM DEBT (Continued)

The future minimum liability for the term is shown below:

For the Year Ending September 30	Principal
2018	\$972,000
2019	1,008,000
2020	1,044,000
2021	1,081,000
2022	1,120,000
2023	25,690,500
	30,915,500
Less: Current Portion	(939,000)
Non-Current Portion	\$ 29,976,500

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:

	2017	2016
Enchanted Hills Camp	\$446,028	\$854,697
Market Street office space		145,913
Rehabilitation services	17,644	21,189
Other	10,275	
	\$473,947	\$1,021,799

For the years ended September 30, 2017 and 2016, net assets were released from restriction from various donor sources, totaling \$571,808 and \$1,744,605, 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.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENTS (Continued)

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

<u>September 30, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Total Funds				
<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

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2017 and 2016**

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENTS (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
Investment return:				
Interest and dividends		16		16
Total investment return		16		16
Contributions				
Appropriation for endowment assets for expenditure		(16)	(82,733)	(82,749)
Endowment net assets, September 30, 2017				

The balance of Permanently Restricted Net Assets at September 30, 2017 and 2016 was \$0 and \$82,733, respectively. 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, 2017 and 2016.

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, 2017 and 2016, there were no deficiencies in value.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENTS (Continued)

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, 2017 and 2016, rent expense under this lease was \$6,477 and \$6,432, respectively.
- 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, 2017 and 2016, rent expense under this lease was \$162,561 and \$50,126, 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, 2017 and 2016, rent expense under this lease was \$29,814 and \$27,593, respectively.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

NOTE 10 – OPERATING LEASES AND SERVICE AGREEMENTS (Continued)

- 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, rent expense under this lease was \$210,000.
- 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, rent expense under this lease was \$336,223.
- 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.

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

<u>Fiscal Year Ending:</u>	
2018	\$352,842
2019	320,296
2020	311,440
2021	311,440
2022	197,370
2023 - 2027	3,440,000
2028 - 2032	4,275,000
2033 - 2037	4,275,000
2038 - 2042	4,275,000
2043 - 2046	2,707,500
	<u>\$20,465,887</u>

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2017 and 2016

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, 2017 and 2016, the Board approved a contribution to the plan which totaled \$211,781 and \$83,160, 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, 2017 and 2016.

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.

NOTE 13 – EXCESS OF FDIC

As of September 30, 2017, the Organization had exceeded the Federal Depository Insurance Corporation limit cash limit of \$250,000 on its depository accounts. At September 30, 2017, the Organization had approximately \$4,317,191 on deposit in excess of federally insured limits.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 3, 2018, the date on which the financial statements were available to be issued. In early October 2017, the agency's property on Mt. Veeder Road in Napa, California was significantly damaged by the fires that struck the region. Approximately 250 of the 311-acre property was impacted by the fires. No loss of life occurred but many structures were destroyed. The agency's insurance coverage will cover property losses and business interruption costs, but it will require multiple years to rebuild and restore the scope of operations to pre-fire levels.

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, 2017**

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? Yes X 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)? Yes X 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, 2017

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 April 3, 2018 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 did not disclose the following findings and questioned costs required to be reported in accordance with *Uniform Guidance*.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended September 30, 2017

<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 Direct Programs				
National Deaf-Blind Equipment Distribution Program (NDBEDP)	32.U01	-	<u>\$77,577</u>	<u>\$943,137</u>
Subtotal Federal Communications Commission Direct Programs			<u>77,577</u>	<u>943,137</u>
Department of Education Pass-Through Programs From:				
State of California				
Independent Living Services for Older Individuals Who are Blind	84.177	C5160-101-0890		<u>238,974</u>
Subtotal Department of Education Pass-Through Programs				<u>238,974</u>
Total Expenditures of Federal Awards			<u>\$77,577</u>	<u>\$1,182,111</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

This Page Left Intentionally Blank

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended September 30, 2017**

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, 2017, and the related notes to the financial statements, and have issued our report thereon dated April 3, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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*.

We have also issued a separate Memorandum on Internal Control dated April 3, 2018 which is an integral part of our audit and should be read in conjunction with this report.

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 result 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.



Pleasant Hill, California
April 3, 2018

**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 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2017.

Report on Internal Control Over Compliance

Management of the Organization 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 a 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, 2017 and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements. We issued our report thereon dated April 3, 2018 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. 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 financial statements as a whole.

Maze & Associates

Pleasant Hill, California
April 3, 2018