

**LIGHTHOUSE FOR THE
BLIND AND VISUALLY IMPAIRED**
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

**For the Years Ended
September 30, 2013 and 2012**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of LightHouse for the Blind and Visually Impaired (a California nonprofit public benefit corporation), which comprise the statements of financial position as of September 30, 2013 and 2012, 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 LightHouse for the Blind and Visually Impaired as of September 30, 2013 and 2012, 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 Matter

In connection with our audit and our procedures related to the internal controls, nothing came to our attention that caused us to believe that LightHouse for the Blind and Visually Impaired failed to comply with the National Deaf-Blind Equipment Distribution Program (NDBEDP) agreement rules that have a direct and material impact on NDBEDP revenues and expenditures (see Note 11). These procedures include examining, on a test basis, evidence about the Corporation's compliance with the NDBEDP requirements including, but not limited to, allowable costs, participation eligibility, and reporting, and performing such other procedures as we consider necessary in the circumstances. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above-referenced NDBEDP agreement.

Restricted Use Relating to the Other Matter

The communication related to compliance with the aforementioned NDBEDP agreement described in the Other Matter paragraph is intended solely for the information and use of the boards of directors and management of LightHouse for the Blind and Visually Impaired and NDBEDP Administrators and is not intended to be and should not be used by anyone other than these specified parties.

Doran & Associates

May 8, 2014

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION
September 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 739,894	\$ 856,629
Receivables (Note 1):		
LightHouse Industries sales	162,579	169,387
Government contracts	1,122,767	186,059
Other receivables	289,010	153,430
Prepaid expenses and deposits	29,707	5,196
Inventory (Note 2)	<u>186,763</u>	<u>187,039</u>
Total current assets	2,530,720	1,557,740
Investments (Note 3)	33,417,707	29,102,947
Construction in progress (Note 4)	47,083	-
Property, equipment and improvements, net of accumulated depreciation of \$3,871,699 at 2013 and \$3,629,603 at 2012 (Notes 1 and 4)	<u>5,727,736</u>	<u>5,940,259</u>
Total assets	<u>\$ 41,723,246</u>	<u>\$ 36,600,946</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 366,400	\$ 287,414
Accrued vacations	<u>167,301</u>	<u>156,588</u>
Total current liabilities	533,701	444,002
Loan payable (Note 5)	<u>2,771,487</u>	<u>2,824,741</u>
Total liabilities	<u>3,305,188</u>	<u>3,268,743</u>
Net assets:		
Unrestricted net assets:		
Designated for operations	26,877,136	23,142,790
Designated for capital assets	<u>9,944,851</u>	<u>9,944,851</u>
Total unrestricted net assets	36,821,987	33,087,641
Temporarily restricted net assets (Note 6)	1,513,338	115,829
Permanently restricted net assets (Note 7)	<u>82,733</u>	<u>128,733</u>
Total net assets	<u>38,418,058</u>	<u>33,332,203</u>
Total liabilities and net assets	<u>\$ 41,723,246</u>	<u>\$ 36,600,946</u>

The accompanying notes are an integral part of these financial statements.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES
For the year ended September 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE AND TRANSFERS				
Support:				
Government contracts and other grants	\$ 1,850,510	\$ -	\$ -	\$ 1,850,510
Donations and bequests	215,236	2,003,098	-	2,218,334
In-kind goods and services (Note 8)	29,078	-	-	29,078
Total support	<u>2,094,824</u>	<u>2,003,098</u>	<u>-</u>	<u>4,097,922</u>
Revenue:				
Sales, net of fees of \$43,006	1,217,650	-	-	1,217,650
Fees for service	687,193	-	-	687,193
Miscellaneous	19,169	-	-	19,169
Interest and dividend income (Note 3)	705,489	33	-	705,522
Rental income	45,610	-	-	45,610
Total revenue	<u>2,675,111</u>	<u>33</u>	<u>-</u>	<u>2,675,144</u>
Net assets released from restrictions	<u>651,622</u>	<u>(651,622)</u>	<u>-</u>	<u>-</u>
Donor modification of restriction to reclassify to temporarily restricted (Note 7)	<u>-</u>	<u>46,000</u>	<u>(46,000)</u>	<u>-</u>
Total support, revenue and transfers	<u>5,421,557</u>	<u>1,397,509</u>	<u>(46,000)</u>	<u>6,773,066</u>
OPERATING EXPENSES				
Program expenses	4,412,613	-	-	4,412,613
General and administrative	964,461	-	-	964,461
Fundraising	422,493	-	-	422,493
Total expenses	<u>5,799,567</u>	<u>-</u>	<u>-</u>	<u>5,799,567</u>
Change in net assets from operations	(378,010)	1,397,509	-	973,499
OTHER GAINS AND LOSSES				
Realized and unrealized gains (losses) on investments, net of fees (Note 3)	<u>4,112,356</u>	<u>-</u>	<u>-</u>	<u>4,112,356</u>
Change in net assets	3,734,346	1,397,509	(46,000)	5,085,855
Net assets, beginning of year	<u>33,087,641</u>	<u>115,829</u>	<u>128,733</u>	<u>33,332,203</u>
Net assets, end of year	<u>\$ 36,821,987</u>	<u>\$ 1,513,338</u>	<u>\$ 82,733</u>	<u>\$ 38,418,058</u>

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LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES (CONTINUED)
For the year ended September 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE AND TRANSFERS				
Support:				
Government contracts and other grants	\$ 807,327	\$ -	\$ -	\$ 807,327
Donations and bequests	1,121,475	186,911	-	1,308,386
In-kind goods and services (Note 8)	<u>551,000</u>	<u>-</u>	<u>-</u>	<u>551,000</u>
Total support	<u>2,479,802</u>	<u>186,911</u>	<u>-</u>	<u>2,666,713</u>
Revenue:				
Sales, net of fees of \$35,259	1,171,803	-	-	1,171,803
Fees for service	625,309	-	-	625,309
Miscellaneous	36,951	-	-	36,951
Interest and dividend income (Note 3)	748,474	257	-	748,731
Rental income	<u>39,157</u>	<u>-</u>	<u>-</u>	<u>39,157</u>
Total revenue	<u>2,621,694</u>	<u>257</u>	<u>-</u>	<u>2,621,951</u>
Net assets released from restrictions	<u>323,086</u>	<u>(323,086)</u>	<u>-</u>	<u>-</u>
Total support, revenue and transfers	<u>5,424,582</u>	<u>(135,918)</u>	<u>-</u>	<u>5,288,664</u>
OPERATING EXPENSES				
Program expenses	3,831,188	-	-	3,831,188
General and administrative	845,305	-	-	845,305
Fundraising	<u>285,346</u>	<u>-</u>	<u>-</u>	<u>285,346</u>
Total expenses	<u>4,961,839</u>	<u>-</u>	<u>-</u>	<u>4,961,839</u>
Change in net assets from operations	462,743	(135,918)	-	326,825
OTHER GAINS AND LOSSES				
Realized and unrealized gains (losses) on investments, net of fees (Note 3)	<u>4,209,293</u>	<u>-</u>	<u>-</u>	<u>4,209,293</u>
Change in net assets	4,672,036	(135,918)	-	4,536,118
Net assets, beginning of year	<u>28,415,605</u>	<u>251,747</u>	<u>128,733</u>	<u>28,796,085</u>
Net assets, end of year	<u>\$ 33,087,641</u>	<u>\$ 115,829</u>	<u>\$ 128,733</u>	<u>\$ 33,332,203</u>

The accompanying notes are an integral part of these financial statements.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES
For the year ended September 30, 2013

	Program Services				Supporting Services			Total
	Community and Information	Rehabilitation Services	LightHouse Enterprises	Program Services Total	Management and General	Fundraising	Supporting Services Total	
Personnel	\$ 807,207	\$ 697,268	\$ 448,467	\$ 1,952,942	\$ 849,996	\$ 305,630	\$ 1,155,626	\$ 3,108,568
Program costs	197,214	903,361	20,282	1,120,857	6,444	21,269	27,713	1,148,570
Cost of goods sold	-	-	438,988	438,988	-	-	-	438,988
Occupancy	106,377	65,306	49,147	220,830	15,384	8,445	23,829	244,659
Depreciation and amortization	69,112	13,089	142,867	225,068	10,993	6,035	17,028	242,096
Outside services	40,112	18,984	50,676	109,772	46,944	10,674	57,618	167,390
Postage and printing	2,111	1,107	1,024	4,242	1,039	32,487	33,526	37,768
Office supplies and equipment	54,993	8,231	18,291	81,515	10,496	3,880	14,376	95,891
Staff training, travel and conference	13,538	42,975	3,704	60,217	4,180	2,875	7,055	67,272
Insurance	19,435	8,118	8,807	36,360	7,696	4,225	11,921	48,281
Telephone	16,603	11,802	12,409	40,814	5,156	2,830	7,986	48,800
Bad debt, bank fee, interest and taxes	2,697	1,334	101,278	105,309	4,910	1,797	6,707	112,016
Shipping and delivery	256	-	13,443	13,699	-	-	-	13,699
Program marketing and public relations	2,000	-	-	2,000	-	22,346	22,346	24,346
Board expenses	-	-	-	-	1,223	-	1,223	1,223
Total	\$ 1,331,655	\$ 1,771,575	\$ 1,309,383	\$ 4,412,613	\$ 964,461	\$ 422,493	\$ 1,386,954	\$ 5,799,567

The accompanying notes are an integral part of these financial statements.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
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STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
For the year ended September 30, 2012

	Program Services				Supporting Services			Total
	Community and Information	Rehabilitation Services	LightHouse Enterprises	Program Services Total	Management and General	Fundraising	Supporting Services Total	
Personnel	\$ 851,334	\$ 872,919	\$ 446,222	\$ 2,170,475	\$ 772,168	\$ 235,115	\$ 1,007,283	\$ 3,177,758
Program costs	174,512	145,904	34,975	355,391	8,669	11,785	20,454	375,845
Cost of goods sold	-	-	439,393	439,393	-	-	-	439,393
Occupancy	85,023	85,656	124,842	295,521	12,173	6,702	18,875	314,396
Depreciation and amortization	72,725	20,085	106,267	199,077	11,030	6,072	17,102	216,179
Outside services	24,544	16,917	20,930	62,391	13,991	6,105	20,096	82,487
Postage and printing	11,199	7,631	7,188	26,018	742	6,659	7,401	33,419
Office supplies and equipment	50,757	10,295	27,070	88,122	6,030	3,265	9,295	97,417
Staff training, travel and conference	17,314	17,063	5,182	39,559	8,787	2,270	11,057	50,616
Insurance	15,811	9,264	7,376	32,451	5,804	3,197	9,001	41,452
Telephone	10,597	11,969	6,867	29,433	2,747	1,513	4,260	33,693
Bad debt, bank fee, interest and taxes	5,902	3,907	61,119	70,928	2,676	1,865	4,541	75,469
Shipping and delivery	77	-	21,479	21,556	-	-	-	21,556
Program marketing and public relations	291	291	291	873	-	798	798	1,671
Board expenses	-	-	-	-	488	-	488	488
Total	\$ 1,320,086	\$ 1,201,901	\$ 1,309,201	\$ 3,831,188	\$ 845,305	\$ 285,346	\$ 1,130,651	\$ 4,961,839

The accompanying notes are an integral part of these financial statements.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS
For the years ended September 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 5,085,855</u>	<u>\$ 4,536,118</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	242,096	216,179
Non-cash donation of land and building	-	(550,000)
Realized loss on investments	(382,820)	(875,036)
Unrealized loss on investments	(3,729,536)	(3,334,257)
Loss on disposal of property, equipment and improvements	-	23,891
Changes in assets and liabilities:		
Receivables	(1,065,480)	306,075
Prepaid expenses and deposits	(24,511)	50,430
Inventory	276	13,108
Accounts payable and other accrued expenses	78,986	(66,917)
Accrued vacations	10,713	(11,545)
Total adjustments	<u>(4,870,276)</u>	<u>(4,228,072)</u>
Net cash provided by operating activities	<u>215,579</u>	<u>308,046</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(8,506,722)	(1,721,079)
Sales of investments	8,304,318	1,977,979
Purchase of property, equipment and improvements	(29,573)	(3,046,823)
Construction in progress	<u>(47,083)</u>	<u>-</u>
Net cash used by investing activities	<u>(279,060)</u>	<u>(2,789,923)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Payments of) proceeds from note payable	<u>(53,254)</u>	<u>2,824,741</u>
Net (decrease) increase in cash and cash equivalents	(116,735)	342,864
Cash and cash equivalents, beginning of year	<u>856,629</u>	<u>513,765</u>
Cash and cash equivalents, end of year	<u>\$ 739,894</u>	<u>\$ 856,629</u>
Supplementary information:		
Cash paid for interest	<u>\$ 56,571</u>	<u>\$ 28,393</u>
Non-cash donation of land and building	<u>\$ -</u>	<u>\$ 550,000</u>

The accompanying notes are an integral part of these financial statements.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended September 30, 2013 and 2012

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - LightHouse for the Blind and Visually Impaired (hereafter, LightHouse or the Corporation), a California nonprofit public benefit corporation founded in 1958, provides a variety of programs to adults, children and seniors who are blind or visually impaired at five locations: San Francisco, Marin, Napa, Alameda, and Humboldt/Del Norte Counties.

Community and Information Services

- Enchanted Hills Camp, on 311 acres in Napa, provides blind, visually impaired, deaf/blind and multi-disabled children, adults and seniors with a fully accessible traditional summer camping experience.
- Adult education and recreation program serves blind and low-vision seniors and working-age adults through a variety of health-oriented and educational classes, including yoga, martial arts, gardening and arts. This program also provides socialization opportunities and works in partnership with Project Open Hand to offer nutritious meals on-site twice per week. Classes are offered during weekdays, evenings and Saturdays.
- Youth recreation program provides accessible after-school, summer and Saturday activities for youth who are blind or visually impaired. Activities include rock climbing, trips to Yosemite and outings to area parks and attractions.
- Blind Leaders Renovation Project offers paid work opportunities for “transition-age” (16-24 years-old) blind and visually impaired youth at the LightHouse in various positions, including retail sales, reception, fundraising and business development. This program is provided in partnership with the California Department of Rehabilitation.
- Alternative formats production services connect individuals to the visual world of print by converting information to Braille, large print, audio and electronic formats. We assist people in creating accessible versions of everything from plain text in a printed document to charts, graphs, maps and business cards. Additionally, we can audit websites for accessibility, measuring against 508 and WCAG 2.0 Checkpoints, ensuring that clients or customers who are blind or visually impaired can access the information posted.
- The LightHouse offers an accessible website providing detailed resources and information about services, events and other items of potential interest to the blind and visually impaired community.
- The LightHouse’s Information and Resource Center provides high quality information and referral services to individuals throughout California on blindness and visual impairment. Core components include a toll-free number, a walk-in resource desk and a materials resource center.
- Quarterly technology seminars offer information and tips on using adaptive technology. Seminars can be attended on-site, via conference call or via a live web stream.
- Volunteer services recruit, train and assign “personal service volunteers” to individuals who may need some general assistance with daily activities (such as reading mail or other important information, devising home organizational systems to make items in the home easier to find). Personal service volunteers are often assigned to seniors who are new to vision loss and lack other systems of support.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
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NOTES TO FINANCIAL STATEMENTS
For the years ended September 30, 2013 and 2012

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Community and Information Services (Continued)

- The LightHouse also serves as a resource on matters related to public policy, advocates for the inclusion and community participation of people who are blind and visually impaired. Key advocacy priorities include employment and transportation access.
- The Taxi Voucher Program, coordinated with the City and County of San Francisco, provides taxi rides for disabled San Franciscans.

Vision Rehabilitation Services

- Vision Rehabilitation refers to learning the skills necessary to live independently with vision loss. Rehabilitation can range from learning how to make the home environment safe to implementing strategies for reading personal mail or prescription labels. We offer tailored, one-on-one and classroom-based education and training to support an individual's vision rehabilitation needs, including Braille instruction, cooking and kitchen safety and daily living skills.
- Living With Vision Loss (LVL) classes that offer adjustment to vision loss strategies in a supportive small-group setting. LVL classes are often the first step someone new to vision loss may take in accessing LightHouse services.
- Orientation and mobility (O&M) training, offering strategies for safe home and community navigation. O&M training may include training on the use of white canes.
- Individual counseling and support groups for individuals and families adjusting to vision loss.
- Low Vision Clinic that offers extensive evaluation and follow-up assessments for individuals whose optometrists can no longer provide solutions to address their vision loss.
- Technology training offers instruction in assistive computer technology through classes, individual instruction, open lab and equipment evaluation.
- Deaf/blind, providing information and referral, advocacy, education and training for persons with dual sensory loss.
- Employment Program, prepares blind and low-vision individuals who are ready to go to work, but need some skills in areas such as: resume writing, job search techniques, interview skills, etc. Upon completion of the employment preparation component, individuals work with a job developer to secure and retain employment.

LightHouse Enterprises

- LightHouse Industries provides employment opportunities for individuals who are blind or visually impaired through a light manufacturing program making products primarily for the U.S. Government.
- Adaptations, the LightHouse store, sells rehabilitation aids and appliances onsite in San Francisco. Products may also be purchased through mail order or online.

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
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NOTES TO FINANCIAL STATEMENTS
For the years ended September 30, 2013 and 2012

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation 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 Corporation pursuant to those stipulations.

Permanently restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation 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.

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

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.

Receivables - Receivables are recorded net of an allowance for expected losses. The allowance is recorded based on estimates of the expected collectibility of the amounts.

Contributions - Contributions are recognized when the donor makes a promise to give to the Corporation 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.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
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NOTES TO FINANCIAL STATEMENTS
For the years ended September 30, 2013 and 2012

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Equipment and Improvements - The Corporation records property, equipment and improvements in excess of \$1,000 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.

Functional Allocation of Expenses - The Corporation 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.

Sales Taxes - 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.

Income Taxes - The Corporation is exempt from state and federal taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be an organization other than a private foundation. In the opinion of management, there is no unrelated business income.

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

Subsequent Events - Subsequent events have been evaluated through May 8, 2014, which is the date the financial statements were available to be issued.

ASC 740-10, Accounting for Uncertainty in Income Taxes - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. The Corporation has determined whether any tax positions have met the recognition threshold and have measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Corporation would be recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
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NOTES TO FINANCIAL STATEMENTS
For the years ended September 30, 2013 and 2012

NOTE 2 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.

The following are the major categories of inventory measured at fair value on a non-recurring basis during the years ended September 30, 2013 and 2012, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Fair Value Measurements at September 30, 2013, Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Adaptations Store inventory	\$ -	\$ 38,810	\$ -	\$ 38,810
LightHouse Industries materials inventory	-	147,954	-	147,954
	<u>\$ -</u>	<u>\$ 186,764</u>	<u>\$ -</u>	<u>\$ 186,764</u>

Fair Value Measurements at September 30, 2012, Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Adaptations Store inventory	\$ -	\$ 42,299	\$ -	\$ 42,299
LightHouse Industries materials inventory	-	144,740	-	144,740
	<u>\$ -</u>	<u>\$ 187,039</u>	<u>\$ -</u>	<u>\$ 187,039</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 3 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, 2013 and 2012, 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>	<u>Fair Value Measurements Using</u>			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
<u>2013:</u>				
Mutual funds - Equity funds	\$ 24,403,602	\$ -	\$ -	\$ 24,403,602
Mutual funds - Bond funds	9,013,405	-	-	9,013,405
Other	700	-	-	700
	<u>\$ 33,417,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,417,707</u>
<u>2012:</u>				
Mutual funds - Equity funds	\$ 20,821,165	\$ -	\$ -	\$ 20,821,165
Mutual funds - Bond funds	7,706,915	-	-	7,706,915
Real estate investment fund	574,167	-	-	574,167
Other	700	-	-	700
	<u>\$ 29,102,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,102,947</u>

The following summarizes the investment income during the years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	<u>\$ 705,522</u>	<u>\$ 748,731</u>
Realized gain on investments	382,820	875,036
Unrealized gain on investments	<u>3,729,536</u>	<u>3,334,257</u>
	<u>4,112,356</u>	<u>4,209,293</u>
	<u>\$ 4,817,878</u>	<u>\$ 4,958,024</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended September 30, 2013 and 2012

NOTE 4 PROPERTY, EQUIPMENT AND IMPROVEMENTS

Property, equipment and improvements consisted of the following at September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,274,290	\$ 1,274,290
Land improvements	310,777	310,777
Building and improvements	5,648,699	5,636,971
Furniture and equipment	<u>2,365,669</u>	<u>2,347,824</u>
	9,599,435	9,569,862
Less: accumulated depreciation	<u>(3,871,699)</u>	<u>(3,629,603)</u>
 Property, equipment and improvements, net	 <u>\$ 5,727,736</u>	 <u>\$ 5,940,259</u>

Depreciation expense for the years ended September 30, 2013 and 2012 was \$242,096 and \$216,179, respectively.

During the year ended September 30, 2013, the Corporation began the process of locating a building to serve as program and office facilities in San Francisco, CA. As part of the process, consulting fees had been incurred through September 30, 2013, totaling \$47,083, which will be part of the basis of the new building when work is completed (see Note 15). At this time it is impracticable to estimate the total project costs, and no amounts have been accrued as of September 30, 2013, related to this project. As of the report date, no firm decisions have been made regarding the existing property serving as program and office facilities.

NOTE 5 LOAN PAYABLE

In 2012, the Corporation signed a loan agreement for a revolving line of credit up to \$5,000,000; On July 5, 2013, the loan maximum was increased to \$8,000,000. The loan is unsecured and the unpaid principal balance bears interest at the rate of LIBOR plus 1.75%, which was 1.9375% in 2013 and 2% in 2012. Interest-only payments are due monthly, with the principal and unpaid accrued interest due upon maturity of the loan on March 15, 2015. On September 30, 2013 and 2012, the unpaid principal balance was \$2,771,487 and \$2,824,741, respectively.

The future minimum liabilities for the loan payable are as follows:

<u>Year ending</u> <u>September 30,</u>	
2014	\$ -
2015	<u>2,771,487</u>
	<u>\$ 2,771,487</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended September 30, 2013 and 2012

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted by time and/or purpose and consisted of the following at September 30, 2013 and 2012:

	2013	2012
Enchanted Hills Camp	\$ 1,474,895	\$ 46,436
Rehabilitation services	4,832	4,598
Education and recreation	8,200	30,843
Client support services	4,605	5,991
Technology	200	19,405
Community services	15,772	-
Other	4,834	8,556
	\$ 1,513,338	\$ 115,829

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT

The Corporation'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 as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation 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 for 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 appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (Continued)

Endowment Net Asset Composition by Type of Fund as of:

<u>September 30, 2013</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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,733</u>	<u>\$ 82,733</u>
<u>September 30, 2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 257	\$ -	\$ 128,733	\$ 128,990
Total funds	<u>\$ 257</u>	<u>\$ -</u>	<u>\$ 128,733</u>	<u>\$ 128,990</u>

Changes in Endowment Net Assets for the Fiscal Years Ended September 30, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 30, 2011	\$ -	\$ -	\$ 128,733	\$ 128,733
Investment return:				
Interest and dividends	-	257	-	257
Total investment return	-	257	-	257
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	257	(257)	-	-
Endowment net assets, September 30, 2012	<u>257</u>	<u>-</u>	<u>128,733</u>	<u>128,990</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended September 30, 2013 and 2012

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (Continued)

Changes in Endowment Net Assets for the Fiscal Years Ended September 30, 2013 and 2012
(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment return:				
Interest and dividends	-	33	-	33
Total investment return	-	33	-	33
Donor-approved re-classification to temporarily restricted net assets	-	-	(46,000)	(46,000)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	(257)	(33)	-	(290)
Endowment net assets, September 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,733</u>	<u>\$ 82,733</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted
Net Assets (Endowment Only) for the Fiscal Years Ended September 30, 2013 and 2012

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained
Permanently either by explicit donor stipulation of SPMIFA to benefit
the following programs:

	<u>2013</u>	<u>2012</u>
Multi-disabled Adult Campers	\$ 82,733	\$ 82,733
Campers from Alameda County	-	36,000
Education and Recreation Related Activities	-	10,000
Total endowment funds classified as permanently restricted net assets	<u>\$ 82,733</u>	<u>\$ 128,733</u>

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NOTES TO FINANCIAL STATEMENTS
For the years ended September 30, 2013 and 2012

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (Continued)

Temporarily Restricted Net Assets

Term endowment funds	\$	-	\$	-
The portion of perpetual endowment funds subject to a time restriction under SPMIFA:				
Without purpose restrictions		-		257
With purpose restrictions		-		-
		-		-
Total endowment funds classified as temporarily restricted net assets				
	\$	-	\$	257

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, 2013 and 2012, there were no deficiencies in value.

Return Objectives and Risk Parameters

The Corporation 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 Corporation targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Corporation currently distributes all income from endowment assets.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 IN-KIND GOODS AND SERVICES

The Corporation receives the benefit of in-kind goods and services that either (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased by the organization if they had not been provided by contribution. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftspeople.

The following are the major categories of in-kind contributions measured at fair value using the market approach on a non-recurring basis during the years ended September 30, 2013 and 2012, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Fair Value Measurements at September 30, 2013, Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equipment	\$ -	\$ 9,078	\$ -	\$ 9,078
Professional services	-	20,000	-	20,000
	<u>\$ -</u>	<u>\$ 29,078</u>	<u>\$ -</u>	<u>\$ 29,078</u>

Fair Value Measurements at September 30, 2012, Using

<u>Description</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equipment	\$ -	\$ 1,000	\$ -	\$ 1,000
Land and buildings	-	550,000	-	550,000
	<u>\$ -</u>	<u>\$ 551,000</u>	<u>\$ -</u>	<u>\$ 551,000</u>

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Corporation with specific assistance programs, campaign solicitations, and various committee assignments.

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NOTE 9 OPERATING LEASES AND SERVICE AGREEMENTS

The Corporation has entered into the following operating leases:

- The Corporation leased manufacturing space in Oakland, California, under a noncancellable lease that expired March 31, 2012, and was month-to-month thereafter. The Corporation vacated the space in April 2012. The lease called for monthly rent payments ranging from a base rent of \$7,683 to \$7,902 at the maturity of the lease, plus an allocation of operating costs not to exceed 15% of the base rent amount. During the year ended September 30, 2012, rent expense under this lease was \$59,793.
- The Corporation 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 \$533 (reduced to \$436 on November 1, 2012), to be adjusted annually based on the area Consumer Price Index (CPI), plus \$150 per month for common area expenses. During the years ended September 30, 2013 and 2012, rent expense under this lease was \$6,764 and \$8,264, respectively.
- The Corporation leases office space in Berkeley, California, under a 60-month noncancellable lease that expires October 31, 2015. The lease calls for base monthly rent payments of \$2,433, to increase by CPI annually, plus an allocation of overhead costs. During the years ended September 30, 2013 and 2012, rent expense under this lease was \$49,208 and \$43,021, respectively.
- The Corporation leases office space in San Rafael, California, under a noncancellable lease that expired April 30, 2011, and is month-to-month thereafter. The lease calls for monthly rent payments of \$1,300. During the years ended September 30, 2013 and 2012, rent expense under this lease was \$15,200 and \$15,600, respectively.
- The Corporation leases a photocopier under a noncancellable lease that expires June 30, 2014. The lease calls for monthly rent payments of \$398 plus tax. During the years ended September 30, 2013 and 2012, the lease expense totaled \$6,038 and \$6,154, respectively.

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

<u>Year ending September 30,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2014	\$ 45,244	\$ 3,927	\$ 49,171
2015	44,808	-	44,808
2016	<u>3,734</u>	<u>-</u>	<u>3,734</u>
	<u>\$ 93,786</u>	<u>\$ 3,927</u>	<u>\$ 97,713</u>

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NOTE 10 RETIREMENT PLANS

The Corporation 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 6% 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, 2013 and 2012, the Board approved a contribution to the plan which totaled \$62,784 and \$68,926 respectively.

LightHouse also adopted a 457(b) plan effective March 1, 2011. The plan is funded by employee contributions, and the Corporation made no contributions toward this plan during the years ended September 30, 2013 and 2012.

NOTE 11 NDBEDP FUNDING

In 2013 the Corporation was selected to participate in the Federal Communications Commission's National Deaf-Blind Equipment Distribution Program (NDBEDP). The funds are used to distribute communications equipment to low-income individuals who are deaf-blind. During the year ended September 30, 2013, the Corporation received \$1,069,213 in NDBEDP funding, which is reported as Government contracts and other grants on the Statement of Activities for 2013.

NOTE 12 CONTINGENCIES

The Corporation receives grants and contracts from various County, State, and Federal agencies. These grants and contracts are subject to inspection 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 Corporation 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 RISKS, UNCERTAINTIES AND CONCENTRATIONS

The Corporation 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 discussions 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 Corporation. 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 Corporation's exposure to impact from these events.

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NOTE 13 RISKS, UNCERTAINTIES AND CONCENTRATIONS (Continued)

LightHouse has a contract to produce a toilet tissue product in specified quantities for the U.S. Government that expires October 10, 2016. For the years ended September 30, 2013 and 2012, net sales under the contract were \$1,037,560 and \$907,760, representing 91% and 88% of total LightHouse Industries sales, respectively. In addition, at September 30, 2013 and 2012, 92% and 96%, respectively, of LightHouse Industries accounts receivable were due from the U.S. Government.

NOTE 14 EXCESS OF FDIC

As of September 30, 2013, the Corporation had exceeded the Federal Depository Insurance Corporation limit cash limit of \$250,000 on its depository accounts. At September 30, 2013, the Corporation had approximately \$396,000 on deposit in excess of federally insured limits.

NOTE 15 SUBSEQUENT EVENTS

At its January 2014 meeting of the LightHouse Board of Directors, authorization was voted to extend \$5 million as initial down payment for purchase of new LightHouse headquarters space. The down payment was enabled by utilizing an existing line of credit from US Bank, expected to be paid off later in 2014 after the LightHouse moves from its Van Ness location and sells its current building. Expected occupancy in the new building is October 2014.

The LightHouse will own approximately 39,000 square feet of office space, comprised of floors 9, 10 and 11 at 1155 Market Street. Application has already been made to the City of San Francisco to begin the process of condominiumizing those floors to be owned by an LLC entirely controlled by the LightHouse.