LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED

SEPTEMBER 30, 2023

INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lighthouse for the Blind and Visually Impaired

Independent Auditors' Report and Consolidated Financial Statements

Hood & Strong

Independent Auditors' Report

THE BOARD OF DIRECTORS
LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED
San Francisco, California

Opinion

We have audited the consolidated financial statements of **LIGHTHOUSE FOR THE BLIND AND VISUALLY IMPAIRED (the Lighthouse)** which comprise the consolidated statement of financial position as of September 30, 2023, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Lighthouse as of September 30 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 4 and 13 to the financial statements, subsequent to September 30, 2023 the Organization was made aware of an event which may require the recording of an impairment its investment in real estate. No adjustments have been made to the financial statements as a result of this uncertainty. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Lighthouse and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lighthouse's ability to continue as a going concern for one year from the date of this report.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lighthouse's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lighthouse's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Lighthouse's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 2, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
May 13, 2024

Lighthouse for the Blind and Visually Impaired

Consolidated Statement of Financial Position

September 30, 2023 (with comparative totals for 2022)	2023	2022
Assets		
Cash and cash equivalents	$ 220,302	$ 8,189,185
Receivables	2,439,754	1,450,368
Prepaid expenses and other assets	862,107	755,963
Inventory	1,087,576	1,191,939
Investments	116,849,713	116,298,809
Notes receivable		11,630,500
Investment in real estate	22,602,945	22,638,523
Operating right-of-use lease assets	546,720	
Property and equipment, net	95,049,209	75,805,336
Interest rate swap	5,610,683	5,385,812
Total Assets	$ 245,269,009	$ 243,346,435
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 5,066,335	$ 4,905,414
Accrued salaries and benefits	783,115	593,716
Operating lease liability	557,229	
Line of credit	25,000,000	15,912,492
Loans payable	29,501,500	47,524,000
Total liabilities	60,908,179	68,935,622
Net Assets:		
Without donor restrictions:		
Undesignated	66,602,371	57,471,244
Board designated	116,849,713	116,298,809
Total net assets without donor restrictions	183,452,084	173,770,053
With donor restrictions	908,746	640,760
Total net assets	184,360,830	174,410,813
Total Liabilities and Net Assets	$ 245,269,009	$ 243,346,435

See accompanying notes to the consolidated financial statements.

Lighthouse for the Blind and Visually Impaired

Consolidated Statement of Activities and Changes in Net Assets

Year Ended September 30, 2023 (with comparative totals for 2022)

	2023			
	Without Donor Restrictions	With Donor Restrictions	Total	2022 Total
Operating:				
Revenue and support:				
Government grants	$ 2,271,839		$ 2,271,839	$ 1,792,913
Sales	3,616,948		3,616,948	2,920,352
Contributions and gifts	967,055	$ 1,491,837	2,458,892	8,813,864
Program service fees	1,183,657		1,183,657	1,352,002
Other	1,279,374		1,279,374	519,914
Net assets released from restrictions	1,223,851	(1,223,851)	-	-
Total revenue and support	10,542,724	267,986	10,810,710	15,399,045
Expenses:				
Program services	18,943,222		18,943,222	14,833,008
Management and general	7,210,472		7,210,472	4,676,320
Development	1,647,247		1,647,247	1,308,633
Total expenses	27,800,941	-	27,800,941	20,817,961
Change in net assets from operations	(17,258,217)	267,986	(16,990,231)	(5,418,916)
Non-Operating:				
Investment income (loss), net of expenses	16,795,877		16,795,877	(24,966,783)
Insurance proceeds	4,500,000		4,500,000	-
QALICB Close Out Loan Forgiven and Gain from Loan Forgiven	5,419,500		5,419,500	-
(Loss) on sale of property and equipment			-	(389,845)
Change in the value of interest rate swap	224,871		224,871	4,219,306
Change in Net Assets	9,682,031	267,986	9,950,017	(26,556,238)
Net Assets, beginning of the year	173,770,053	640,760	174,410,813	200,967,051
Net Assets, end of the year	$ 183,452,084	$ 908,746	$ 184,360,830	$ 174,410,813

See accompanying notes to the consolidated financial statements.

Lighthouse for the Blind and Visually Impaired

Consolidated Statement of Functional Expenses

Year Ended September 30, 2023 (with comparative totals for 2022)

	2023							
	Program Services				Supporting Services			
	Community and Information	Rehabilitation Services	Lighthouse Enterprises	Total	Management and General	Development	Total	2022 Total
Personnel	$ 2,716,856	$ 4,181,180	$ 2,409,722	$ 9,307,758	$ 2,423,664	$ 1,038,183	$ 12,769,605	$ 10,681,559
Program costs	139,172	466,742	85,754	691,668	330,957	145,205	1,167,830	668,024
Cost of goods sold	39,281		1,929,319	1,968,600			1,968,600	679,372
Occupancy	108,776	183,806	58,621	351,203	8,936	4,119	364,258	480,771
Depreciation and amortization	755,983	770,783	1,184,992	2,711,758	202,944	93,542	3,008,244	3,005,115
Outside services	636,301	684,290	239,808	1,560,399	778,375	186,005	2,524,779	1,619,945
Postage and printing	6,310	5,005	59,299	70,614	6,734	15,500	92,848	129,775
Office supplies and equipment	365,366	92,479	310,284	768,129	39,721	84,392	892,242	801,568
Staff training, travel and conference	31,531	143,984	34,205	209,720	70,251	46,759	326,730	163,539
Insurance	638,676	71,044	156,650	866,370	61,658	8,622	936,650	746,441
Telephone	46,367	51,434	39,682	137,483	13,219	6,093	156,795	216,481
Bad debt, bank fee, interest and taxes	11,281	5,900	258,042	275,223	3,219,468	18,448	3,513,139	1,492,779
Shipping and delivery				-			-	-
Program marketing and public relations			24,297	24,297	36,573	379	61,249	123,643
Board expenses				-	17,972		17,972	8,949
Total expenses	$ 5,495,900	$ 6,656,647	$ 6,790,675	$ 18,943,222	$ 7,210,472	$ 1,647,247	$ 27,800,941	$ 20,817,961

See accompanying notes to the consolidated financial statements.

Lighthouse for the Blind and Visually Impaired

Consolidated Statement of Cash Flows

Year Ended September 30, 2023 (with comparative totals for 2022)	2023	2022
Cash Flows from Operating Activities:		
Change in net assets	$ 9,950,017	$ (26,556,238)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Change in the value of interest rate swap	(224,871)	(4,219,306)
Net realized and unrealized loss (gain) on investments	(13,930,352)	27,511,100
Depreciation and amortization	3,008,244	3,005,115
Amortization of right-of-use lease assets	193,405	
Changes in operating assets and liabilities:		
Receivables	(989,386)	16,506
Gain from loan forgiveness	(5,419,500)	
Prepaid expenses and other assets	(106,144)	(28,083)
Inventory	104,363	(181,887)
Lease obligations	(182,896)	
Accounts payable and accrued expenses	160,921	2,304,054
Accrued salaries and benefits	189,399	1,333
Deferred revenue		(229,245)
Net cash provided by operating activities	(7,246,800)	1,623,349
Cash Flows from Investing Activities:		
Proceeds from the sale or maturity of investments	16,335,369	10,915,570
Purchase of investments	(2,955,921)	(2,592,675)
Distributions from investment in real estate	35,578	436,500
Purchase of property and equipment	(22,252,117)	(15,580,226)
Net cash used by investing activities	(8,837,091)	(6,820,831)
Cash Flows from Financing Activities:		
Payment on loans payable	(972,500)	(1,020,000)
Proceeds from line of credit	9,087,508	12,562,492
Net cash (used by) provided by financing activities	8,115,008	11,542,492
Net Change in Cash and Cash Equivalents	(7,968,883)	6,345,010
Cash and Cash Equivalents, beginning of the year	8,189,185	1,844,175
Cash and Cash Equivalents, end of the year	$ 220,302	$ 8,189,185
Supplemental Information		
Interest paid	$ 3,180,831	$ 1,148,530
Right-of-use lease assets acquired with lease liabilities	740,125	

See accompanying notes to the consolidated financial statements.

Note 1 - Nature of Lighthouse and Summary of Significant Accounting Policies:

LightHouse for the Blind and Visually Impaired (Lighthouse), a California nonprofit public benefit corporation founded in 1902, provides a variety of programs to over 3,000 participants who are blind or visually impaired in San Francisco and five other locations throughout Northern California.

LightHouse is the sole owner of The Lighthouse Member LLC (LLC), and 1155 Market Street QALICB, (1155 Market) both California nonprofit corporations. These entities own and operate two separate parcels of real estate. 1155 Market meets the criteria for consolidation for purposes of financial reporting.

Lighthouse receives support and revenue from a variety of sources.

Following is a description of the programs and services of Lighthouse:

Community and Information Services

- Community Services offers social, health promotion and educational classes for the blind. Opportunities include, yoga, dance, a book club, and many other programs. Cultural, artistic and fitness programs bring people together for 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 and group therapy sessions.

- The Media and Accessible Design Laboratory (MAD Lab) makes visual information accessible to people who are blind and visually impaired. The transcription team takes original copy and translates it into accessible formats, including braille, large print, and audio. An experienced team of braille certified tactile image and map designers helps corporate and governmental entities, educational institutions, and nonprofits improve the accessibility and inclusiveness of their venues and services as well as comply with ADA signage standards and state building codes.

Vision Rehabilitation Services

- Blindness Skills provides instruction 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 a job training program specifically designed for blind and visually impaired jobseekers in the Bay Area. Our graduates have found jobs, starting them on a path of self-reliance and life fulfilment.

- 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 communications equipment and training program that is open to deaf-blind individuals throughout the state. It also hosts a special Enchanted Hills Camp session specifically for the deaf-blind.

LightHouse Enterprises

- 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.

- LightHouse Industries provides direct employment at the Sirkin Lighthouse, our light manufacturing plant in Alameda where 75% of all direct labor is performed by blind or visually impaired employees.

a. Basis of Presentation and Consolidation

The consolidated financial statements include the financial statements of the Lighthouse and 1155 Market (known collectively as The Lighthouse). All material intercompany accounts and transactions have been eliminated.

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), applicable to nonprofit organizations. The Lighthouse presents information regarding its net assets and activities according to two classes of net assets.

Net Assets Without Donor Restrictions – net assets that are not subject to donor-imposed stipulations. In addition, the Board has designated net assets of $116,849,713 that are not restricted by donors but set aside by the Board for specific uses, including subsidizing operating deficits, capital improvements and program enhancements.

Net Assets With Donor Restrictions – net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature because the donor stipulates that the principal be invested in perpetuity. The Lighthouse has no restrictions that are perpetual in nature.

b. Recognition of Revenue

Contributions are recognized at their fair value when the donor makes an unconditional promise to give to Lighthouse. Donor-restricted contributions are reported as increases in donor restricted net assets depending on the nature of the restrictions. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using market discount rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Lighthouse uses the allowance method to determine uncollectible receivables. The allowance is based upon prior years' experience and management's analysis of specific promises made. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Government grants

A portion of Lighthouse's revenue is derived from cost-reimbursable federal and state contracts, which are conditioned upon certain performance requirements and/ or incurring qualifying expenses. Amounts received are recognized as revenue when Lighthouse has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the Consolidated Statement of Financial Position.

Sales

Sales are recognized as revenue at the time the sale is completed.

Program service fees

Program service fees are recognized at the time the related service is provided to a client.

c. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Cash and Cash Equivalents

For purposes of the Consolidated 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.

e. Receivables

Receivables are stated at the amount the Lighthouse's management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to an allowance account, based on its assessment of the current status of individual accounts. Management believes the entire balance of receivables is collectible, and therefore, no allowance was recorded as of September 30, 2023.

f. Investments

Investments in money market funds and mutual funds are carried at fair value based upon quoted market prices. Investments in privately held entities are carried at cost, which approximates fair value.

Gains and losses that result from market fluctuations are recognized in the Consolidated Statement of Activities and Changes in Net Assets in the period such fluctuations occur. Dividend and interest income are accrued when earned. Investment fees and expenses reduce investment income recognized during the year.

Investments in real estate are carried at cost.

g. 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.

h. Property and Equipment

The Lighthouse 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 ranging from five to forty years.

i. Functional Allocation of Expenses

The Lighthouse 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.

j. Income Taxes

The Lighthouse is a tax-exempt organization under Internal Revenue Service Code (IRC) §501(c)(3) and the applicable section of the California Revenue and Taxation Code.

Management evaluated the Lighthouse's tax positions and concluded that the Lighthouse had maintained its tax-exempt status and had not taken uncertain tax positions that required adjustment to the consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

k. 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.

The Lighthouse classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Lighthouse's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

l. Leases

Operating right-of-use lease assets represent Lighthouse's right to use an underlying asset during the lease term and operating lease liabilities represent Lighthouse's obligation to make payments arising from the lease. Operating leases are recorded in operating right-of-use lease assets and operating lease liabilities on the Statement of Financial Position. Lighthouse does not have any financing leases.

Operating right-of-use lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The discount rate used to derive the present value is based risk-free rate for a period comparable to the lease term. Renewal periods are included in calculating the present value of future lease payments when they are reasonably certain of exercise. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

m. <u>Recent Accounting Pronouncement</u>

Pronouncement Adopted:

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this guidance, lessees are required to recognize the following at the commencement date of all leases not classified as short-term: 1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right-of-use (ROU) lease asset, which represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lighthouse adopted the ASU as of October 1, 2022, using the transition method under which the prior year information is not restated and continues to be presented in accordance with Topic 840. Lighthouse made an accounting policy election, available under Topic 842, not to recognize ROU lease assets and lease liabilities for leases with a term of 12 months of less. Lighthouse applied a package of practical expedients to its leases that commenced before the adoption date, electing not to reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. Adoption of Topic 842 resulted in the recording of operating ROU lease assets and lease liabilities of $740,125, at October 1, 2022 (effective date of the lease). The adoption of the new lease standard did not materially impact the change in net assets or cash flows for the year ended September 30, 2023.

n. <u>Comparative Financial Statements</u>

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with Lighthouse's financial statements for the year ended September 30, 2022 from which the summarized information is derived.

o. <u>Subsequent Events</u>

Lighthouse has reviewed its results of operations for the period of time from its fiscal year ended September 30, 2023 through May 13, 2024, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure excepted as noted below as well as in Notes 4 and 13.

In November 2023 the National Labor Relations Board certified an employee election which appoints Office and Professional employees International Union Local 29 as the official representative of the majority of the Lighthouse's employees.

Note 2 - Receivables:

Receivables, due within one year, consisted of the following at September 30, 2023:

Government grants	$ 554,379
LightHouse Industries	1,361,531
Other	523,844
Total	$ 2,439,754

Note 3 - Investments:

The following were the major categories of investments measured at fair value on a recurring basis as of September 30, 2023:

	Level 1	Level 2	Level 3	Total
Mutual funds - equity funds		$ 82,736,121		$ 82,736,121
Mutual funds - bond funds		33,495,098		33,495,098
Money market funds	$ 504,138			504,138
Equity investment in Accessible Inc.			$ 114,356	114,356
Total	$ 504,138	$ 116,231,219	$ 114,356	$ 116,849,713

Investment Income

The following summarizes the investment income during the year ended September 30, 2023:

Interest and dividend income	$ 2,948,379
Realized gain on investments	6,044,579
Unrealized loss on investments	7,885,773
Investment fees	(47,276)
Total investment income, net	$ 16,831,455

Investments serve as security for loans payable as described in Note 7.

Note 4 - Investment in Real Estate:

The Lighthouse Building LLC (the Company) is a single member LLC owned by Blind Holdings LLC. Blind Holdings LLC is owned jointly by the Lighthouse (90% owner via a single member LLC named "The Lighthouse Member LLC" (the LLC) and 1155 Market LLC (10% owner). The Company owns the first eight floors, basement, roof and land, known as Parcel A of an eleven-story building located at 1155 Market Street, San Francisco California. Floors nine through eleven are owned by 1155 Market Street QALICB. The investment in real estate of $22,605,945 recorded in the accompanying Consolidated Statement of Financial Position represents the 90% interest in the Company equity as of September 30, 2023 per the Company's audited financial statements.

At September 30, 2023 the Organization was aware that the Company was in negotiations with its current tenant which would likely reduce future rental income based upon the existing commercial rental market conditions in San Francisco. Subsequent to September 30, 2023, the Company was advised that the current tenant will not renew its lease. The Company is making every effort to replace the tenant, but it will more likely than not be that rental income will be reduced for an unknown period of time. The Company is obtaining an appraisal of the property and has been noticed by its lender that it has been put into special servicing, a process to determine whether the Company can pay the mortgage on the property of $48,000,000 due in January 2025. It has not been determined whether or not this is a permanent impairment, which would cause the Organization to record an impairment loss at the time such loss is determined.

Note 5 - Property and Equipment:

On December 9, 2015, the Lighthouse 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 ("NMTC") 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 NMTC transaction. The outstanding principal balance of the loan funds accrued interest at a rate of 1.465827% per annum, payable quarterly. Principal payments were not due until March 15, 2023, after the NMTC compliance period ended, at which time the Borrower was required to make a one-time payment to the Lighthouse in the amount of distributions by the Community Development Entities. The loan matured on December 9, 2045. On December 16, 2022 the full outstanding note receivable balance was fully forgiven. A loss on forgiveness of $17,050,000 was recognized in the financial statements as of September 30, 2023. The Lighthouse also earned interest from the leverage loan during the period in the amount of $ 35,517 which is included in interest and dividend income in 2023.

Note 6 - Property and Equipment:

Property and Equipment consisted of the following at September 30, 2023:

Land	$ 3,111,103
Buildings	62,844,720
Leasehold improvements	341,951
Furniture and equipment	3,909,545
Construction in progress	44,344,661
Intangibles	216,000
	114,767,980
Less: accumulated depreciation	(19,718,771)
Total	$ 95,049,209

Construction in progress relates to costs incurred for the rehabilitation of Enchanted Hills Camp. Total costs of this project will be approximately $48,887,000 and will be funded through a variety of sources, including contributions, bank financing, and the proceeds from insurance and legal settlements.

Note 7 - Debt:

The New Market Tax Credit ("NMTC") 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 NMTC transaction, on December 2, 2015, the Lighthouse entered into a loan agreement for a term loan in the amount of $36,000,000. On April 24, 2020 the loan was refinanced and $32,700,000 was borrowed, the proceeds of which were used to pay off the 2015 debt. The original 2015 loan accrued interest at a rate of one-month LIBOR plus 1.83% and was secured by investments held in U.S. Bank, as disclosed in Note 3. The refinanced loan bears interest at a fixed annual rate of 1.637%. Principal and interest payments are due monthly, and the unpaid principal and unpaid accrued interest is due upon maturity of the loan in April 2030. On September 30, 2023, the unpaid principal balance was $29.501,500. Interest expense on the loan was $553,377 for the year ended September 30, 2023.

In connection with the NMTC transaction, on December 2, 2015, the Lighthouse entered into two loan agreements for $14,550,000 and $2,500,000, respectively. Both loans are unsecured and the unpaid principal balances bear interest at the rate of 1.00% per annum. Interest only payments are due quarterly for the period from March 1, 2016 through December 1, 2022. Commencing March 1, 2023, principal and interest payments in the amounts of $177,233 and $30,452, respectively, are due quarterly until both notes mature on December 2, 2045. On December 16, 2022 the full outstanding note payable balance was fully forgiven. A gain on forgiveness of $11,630,500 was recognized in the financial statements as of September 30, 2023. As of September 30, 2023, the combined unpaid principal balance on the notes was $0 and combined interest payments of $42,625 were made during the year then ended.

Both loans contain certain covenants with which Lighthouse was in compliance with at September 30, 2023. Expect future payments are as follows:

Year ending September 30,	Total
2024	$ 1,000,000
2025	1,030,000
2026	1,060,000
2027	1,090,000
2028	1,116,000
Thereafter	24,205,500
Total	29,501,500
Less Current Portion	(1,000,000)
Non-Current Portion	$ 28,501,500

Line of credit

The Lighthouse has a line of credit with a bank for $25,000,000 bearing interest at a rate of 2.00% plus Daily Simple Secured Overnight Financing Rate. The interest rate was 7.31% as of September 30, 2023. The line of credit expires on April 13, 2024. The balance outstanding at September 30, 2023 is $ 25,000,000 and was paid in full on March 7, 2024 A $10,000,000 line of credit was obtained which is secured by certain of the Lighthouse’s investments.

Interest rate swap

In order to minimize the risk of interest rate movement, the Lighthouse entered into a swap agreement in conjunction with the refinancing of the 2015 loan during the year ended September 30, 2022, whereby it exchanged a variable rate of interest for a fixed rate of 0.616%.

The change in the value of the interest rate swap agreement is included in the accompanying Consolidated Statement of Activities and Changes in Net Assets. As of September 30, 2023, the value of the interest swap was $5,610,683 as a result of a net unrealized gain during the year of $224,871. Domestic and international capital markets have experienced significant volatility. As a result, fluctuations in the fair value of the interest rate swap may have occurred subsequent to September 30, 2023.

Note 8 - Net Assets With Donor Restrictions:

Net assets with donor restrictions are restricted by time and/or purpose and consisted of the following at September 30, 2023:

Enchanted Hills Camp	$ 443,969
Rehabilitation services	249,543
Other	215,234
Total	$ 908,746

For the year ended September 30, 2023, net assets released from restriction from various donor sources consisted of the following:

Enchanted Hills Camp	$ 295,448
Rehabilitation services	41,873
Other	886,530
Total	$ 1,223,851

Note 9 - Operating Leases and Service Agreements:

Future minimum payments under noncancelable leases and service agreements are as follows:

Year Ending September 30,	
2024	$ 216,087
2025	201,849
2026	171,078
Total lease payments	589,014
Less discount to present value	(31,785)
Present value of lease liabilities	$ 557,229

Rent expense for the year ended September 30, 2023, was $ 246,673.

The weighted average remaining lease term as of September 30, 2023 was approximately 3 years. The weighted average discount rate as of September 30, 2023 was 4.12%.

Note 10 - Retirement Plans:

On November 7, 2019, the Lighthouse Board of Directors voted to amend its 401(k)-retirement plan to provide Safe-Harbor provisions effective January 1, 2020. Under the Safe-Harbor provisions, participating employees became fully vested in company contributions and the company match percentage was reduced from 7% in effect since 2016 to the 6% maximum allowable under Safe-Harbor. As part of the amendment, the Board also adopted a 3-month waiting period before new employees are eligible to enroll in the Plan.

During the year ended September 30, 2023, the Board approved a contribution to the plan which totaled $315,282.

LightHouse also adopted a 457(b)-plan effective March 1, 2011. The plan is funded by employee contributions and the Lighthouse made no contributions toward this plan during the year ended September 30, 2023.

Note 11 - Contingencies:

The Lighthouse 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 Lighthouse has no provisions for the possible disallowance of program costs. It is management's opinion that all grant and contract conditions have been met.

Note 12 - Availability and Liquidity:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Consolidated Statement of Financial Position date, consisted of the following at September 30, 2023:

Total financial assets:	
Cash and cash equivalents	$ 220,302
Receivables	2,439,754
Investments	116,849,713
	119,509,769
Less:	
Board-designated net assets	(116,849,713)
Net assets with restrictions	(1,455,681)
Financial assets available to meet general expenditures needs within one year	$ 1,204,375

The Board of Directors allocates a portion of investment income to operations as necessary to subsidize any operating deficits.

Note 13 – Subsequent Event:

Subsequent to September 30, 2023 the Lighthouse Building LLC (the Company) was informed that its current tenant is not renewing its lease. As discussed in Note 4 the Company is obtaining an appraisal of the property which could cause the Organization to record an impairment loss at the time such loss is determined.