Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

LIGHTHOUSE INTERNATIONAL AND AFFILIATE

December 31, 2011 and 2010

LIGHTHOUSE INTERNATIONAL AND AFFILIATE

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Lighthouse International and Affiliate:

We have audited the accompanying consolidated statements of financial position of Lighthouse International and Affiliate (collectively, the "Lighthouse") as of December 31, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of Lighthouse's management. 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 established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lighthouse's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lighthouse International and Affiliate as of December 31, 2011 and 2010, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as of and for the years ended December 31, 2011 and 2010, taken as a whole. The supplementary information as listed on the table of contents and presented on page 30 for the years ended December 31, 2011 and 2010, is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Grant Thornton LLP

New York, New York
May 15, 2012

LIGHTHOUSE INTERNATIONAL AND AFFILIATE
Consolidated Statements of Financial Position
As of December 31, 2011 and 2010

ASSETS	2011	2010
Cash and cash equivalents	$ 4,294,667	$ 1,325,594
Accounts receivable, net of allowance for doubtful accounts of approximately $181,000 in 2011 and $681,000 in 2010	1,511,626	1,344,992
Note receivable	1,520,000	1,900,000
Prepaid expenses, inventories and other assets	1,406,729	572,757
Contributions, trusts and legacies receivable, net of reserve of approximately $682,000 in 2011 and $703,000 in 2010 (Note 3)	7,952,788	9,184,157
Investments (Note 4)	37,202,952	45,095,625
Investments held under split-interest agreements	3,401,789	3,054,785
Funds held by trustee (Notes 9 and 10)	147,447	907,575
Deferred financing costs, net (Note 2)	508,415	1,036,155
Property, plant and equipment, net (Note 5)	23,787,054	24,757,058
Beneficial interest in perpetual trusts	8,738,232	9,191,592
Total assets	$ 90,471,699	$ 98,370,290
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 5,414,334	$ 7,088,065
Obligation for leases - closed facilities (Note 14)	-	213,272
Liabilities under charitable split-interest agreements	2,323,326	2,113,574
Mortgage loan payable (Note 10)	45,000,000	-
Bonds payable (Note 9)	-	38,544,057
Retirement benefits (Note 6)	14,394,958	11,690,967
Total liabilities	67,132,618	59,649,935
Commitments and contingencies (Note 13)		
NET ASSETS		
Unrestricted	(16,841,508)	(4,693,162)
Temporarily restricted (Note 7)	18,598,951	21,728,521
Permanently restricted (Note 8)	21,581,638	21,684,996
Total net assets	23,339,081	38,720,355
Total liabilities and net assets	$ 90,471,699	$ 98,370,290

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

LIGHTHOUSE INTERNATIONAL AND AFFILIATE
Consolidated Statements of Activities
For the years ended December 31, 2011 and 2010

	Unrestricted		Temporarily		Permanently		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
SUPPORT AND REVENUES								
Contributions	$ 2,599,302	$ 970,461	$ 304,171	$ 1,731,606	$ 350,000	$ 50,000	$ 3,253,473	$ 2,752,067
NAVH contribution (Note 1)	-	3,486,241	-	-	-	-	-	3,486,241
Special leadership gifts	175,813	3,278,904	-	1,968,586	-	-	175,813	5,247,490
Special events revenue, net of direct costs of $581,854 and $470,558 in 2011 and 2010, respectively	1,465,827	1,436,602	-	-	-	-	1,465,827	1,436,602
Legacies	3,272,462	3,946,430	1,524,606	1,477,772	-	-	4,797,068	5,424,202
Sales of consumer and professional products	495,130	465,400	-	-	-	-	495,130	465,400
Government grants (Note 12)	5,965,746	5,839,921	-	-	-	-	5,965,746	5,839,921
Investment return (loss) (Note 4)	(865,313)	4,076,279	322,640	441,504	-	-	(542,673)	4,517,783
Distributions from perpetual trusts	326,786	380,427	-	-	-	-	326,786	380,427
Change in split-interest agreements and beneficial interest in perpetual trusts	532,255	580,157	(560,960)	(246,969)	(453,358)	465,747	(482,063)	798,935
Rental and conference center income (loss), net of related direct costs of $3,787,100 and $2,770,233 in 2011 and 2010, respectively (Note 10)	420,998	494,855	-	-	-	-	420,998	494,855
Direct client services income	1,636,512	1,588,387	-	-	-	-	1,636,512	1,588,387
Other income	408,608	424,281	-	-	-	-	408,608	424,281
Net assets released from restrictions (Note 7)	4,189,816	3,691,209	(4,189,816)	(3,691,209)	-	-	-	-
Total support and revenues (Note 9)	20,623,942	30,659,554	(2,599,359)	1,681,290	(103,358)	515,747	17,921,225	32,856,591
EXPENSES								
Program services (Notes 2 and 11)	20,525,280	21,735,365	-	-	-	-	20,525,280	21,735,365
Supporting services	6,112,310	7,324,715	-	-	-	-	6,112,310	7,324,715
Total expenses	26,637,590	29,060,080	-	-	-	-	26,637,590	29,060,080
Change in net assets before non-recurring items	(6,013,648)	1,599,474	(2,599,359)	1,681,290	(103,358)	515,747	(8,716,365)	3,796,511
Change in minimum liability for pension benefits (Note 6)	(3,483,764)	(3,641,677)	-	-	-	-	(3,483,764)	(3,641,677)
Loss on extinguishment of bonds	(2,581,145)	-	-	-	-	-	(2,581,145)	-
Separation offer	(600,000)	-	-	-	-	-	(600,000)	-
Reclassification of assets	530,211	-	(530,211)	-	-	-	-	-
Adoption of the New York Prudent Management Institutional Funds Act (Notes 7 and 8)	-	(7,210,223)	-	7,210,223	-	-	-	-
Change in net assets	(12,148,346)	(9,252,426)	(3,129,570)	8,891,513	(103,358)	515,747	(15,381,274)	154,834
Net assets, beginning of year	(4,693,162)	4,559,264	21,728,521	12,837,008	21,684,996	21,169,249	38,720,355	38,565,521
Net assets, end of year	$ (16,841,508)	$ (4,693,162)	$ 18,598,951	$ 21,728,521	$ 21,581,638	$ 21,684,996	$ 23,339,081	$ 38,720,355

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

LIGHTHOUSE INTERNATIONAL AND AFFILIATE
Consolidated Statement of Functional Expenses
For the year ended December 31, 2011

	Total Program Services	Supporting Services: Development	Supporting Services: Administrative and General	Supporting Services: Total	Total Expenses
Salaries	$ 10,672,083	$ 1,782,775	$ 1,103,142	$ 2,885,917	$ 13,558,000
Employee benefits	2,925,836	509,493	279,831	789,324	3,715,160
Travel and entertainment	109,767	72,768	62,741	135,509	245,276
Professional services	1,766,610	459,863	818,531	1,278,394	3,045,004
Supplies and equipment	247,027	17,100	42,228	59,328	306,355
Occupancy	1,064,765	204,298	40,253	244,551	1,309,316
Postage and printing	374,956	243,212	4,936	248,148	623,104
Miscellaneous	467,313	105,923	27,236	133,159	600,472
Cost of goods sold	578,482	2,029	-	2,029	580,511
Interest expense	1,307,551	177,787	58,187	235,974	1,543,525
Total expenses before depreciation and amortization	19,514,390	3,575,248	2,437,085	6,012,333	25,526,723
Depreciation and amortization	1,010,890	77,760	22,217	99,977	1,110,867
Total (Note 2)	$ 20,525,280	$ 3,653,008	$ 2,459,302	$ 6,112,310	$ 26,637,590

The accompanying notes are an integral part of this consolidated financial statement.

LIGHTHOUSE INTERNATIONAL AND AFFILIATE
Consolidated Statement of Functional Expenses
For the year ended December 31, 2010

		Supporting Services			
	Total Program Services	Development	Administrative and General	Total	Total Expenses
Salaries	$ 10,634,281	$ 1,696,106	$ 1,303,889	$ 2,999,995	$ 13,634,276
Employee benefits	3,092,896	536,320	338,916	875,236	3,968,132
Travel and entertainment	117,688	46,375	56,891	103,266	220,954
Professional services	2,128,276	406,328	1,254,612	1,660,940	3,789,216
Supplies and equipment	395,019	44,876	32,646	77,522	472,541
Occupancy	1,597,127	190,932	48,529	239,461	1,836,588
Postage and printing	385,474	227,061	7,451	234,512	619,986
Miscellaneous	477,426	14,170	736,835	751,005	1,228,431
Cost of goods sold	446,250	-	-	-	446,250
Interest expense	1,150,043	173,043	65,483	238,526	1,388,569
Total expenses before depreciation and amortization	20,424,480	3,335,211	3,845,252	7,180,463	27,604,943
Depreciation and amortization	1,310,885	115,402	28,850	144,252	1,455,137
Total (Note 2)	$ 21,735,365	$ 3,450,613	$ 3,874,102	$ 7,324,715	$ 29,060,080

The accompanying notes are an integral part of this consolidated financial statement.

LIGHTHOUSE INTERNATIONAL AND AFFILIATE
Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (15,381,274)	$ 154,834
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in minimum pension liability	3,483,764	3,641,677
Provision for bad debt expense, accounts receivable	(500,128)	-
Provisions for bad debt expense, contributions	(21,237)	702,919
Depreciation and amortization	1,757,322	1,730,932
Write-off of deferred financing	1,013,130	-
Amortization of deferred financing	53,260	46,051
Write off and amortization of bond discount	1,605,943	75,854
Net realized and unrealized losses (gains) on investments	884,729	(4,101,782)
Change in value of split-interest agreements	(137,252)	(204,248)
Permanently restricted contributions	(2,420,000)	(50,000)
Change in beneficial interest in perpetual trusts	453,360	(465,747)
Changes in assets and liabilities:		
Accounts receivable	333,494	(403,501)
Prepaid expenses, inventories and other assets	(981,419)	234,571
Contributions, trusts and legacies receivable	1,252,606	(1,888,653)
Accounts payable and accrued expenses	(1,673,731)	33,763
Obligation for leases at closed facilities	(213,272)	(113,070)
Retirement benefits	(779,773)	(461,184)
Net cash used in operating activities	(11,270,478)	(1,067,584)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(14,241,808)	(11,482,882)
Proceeds from sales of investments	21,249,752	17,593,740
Property, plant and equipment additions	(787,318)	(1,666,163)
Change in investments restricted to use	907,575	20,931
Net cash provided by investing activities	7,128,201	4,465,626
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	2,420,000	50,000
Principal payments on bonds payable	(40,150,000)	(985,000)
Proceeds from mortgage loan payable	45,000,000	-
Deferred financing on mortgage loan payable	(538,650)	-
Proceeds from note receivable	380,000	(1,900,000)
Net cash provided by (used in) financing activities	7,111,350	(2,835,000)
Net increase in cash and cash equivalents	2,969,073	563,042
Cash and cash equivalents, beginning of year	1,325,594	762,552
Cash and cash equivalents, end of year	$ 4,294,667	$ 1,325,594
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 2,077,436	$ 1,836,081
Contribution resulting from the merger with National Association for the Visually Handicapped	$ -	$ 3,486,241

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

1. ORGANIZATION

Lighthouse International and Affiliate (the "Lighthouse"), founded in 1905, is a leading nonprofit organization located in New York City, New York, that helps people of all ages overcome the challenges of vision loss. Through services, education, research and advocacy, the Lighthouse assists people with low vision and blindness to enjoy safe, independent and productive lives.

The following is a summary of the programs and activities of the Lighthouse:

- The Child Development Center provides comprehensive services to meet the individual needs of children with vision impairment from age three to five through a uniquely integrated preschool, where children who are visually impaired or blind learn alongside those with full sight for a more enriched educational experience for all.
- Rehabilitation and Youth Services empower people with vision loss to enjoy safe and independent lives. These services help teens build the confidence, socialization and independent living skills they need to achieve success whether in school and, ultimately, as adults in the working world. Adults learn the skills and strategies necessary to manage activities of daily living, including household tasks, food preparation and cooking, cleaning, personal grooming, medication management and personal financial management.
- Low Vision Services include specialized eye exams by low vision doctors to evaluate a person's remaining vision and overall visual function. The goals are to maximize existing vision – often with the use of prescribed optical devices – and to enhance patient's quality of life at any age.
- Home Based Early Intervention is dedicated to helping children with visual impairments and/or developmental delays from birth to three years of age. Programs help infants and toddlers with vision problems and developmental delays reach the same developmental milestones as their peers.
- Career, Academic and Technology services enable people who are legally blind achieve their academic goals, prepare for, obtain or retain a job in the competitive marketplace, and provide evaluation and training on the use of assistive technology. Adult basic education, English as a Second Language (ESL), GED, tutoring and college preparation are some of the academic offerings. Matching employers with qualified candidates and ensuring workplace accessibility for employees with vision loss are key components of these programs.
- Volunteers and Reading services recruit outstanding individuals including college interns and business professionals who give of their time and expertise to support our programs and mission.
- Consumer Products include the Optical Dispensary and Retail and Online Lighthouse Store which provide a wide range of lighting, magnifying and adaptive devices – all of which are designed to make life easier for people with vision loss – available to those who need them.
- Social Services assist people and their families/caregivers in adjusting to and coping with vision loss, by addressing the emotional and psychological impact of the vision loss so that independence, dignity and quality of life are maintained.
- Outreach encompasses the development of strategic initiatives and activities to advance awareness of vision related issues, and provides education and referrals for the full range of services provided by the Lighthouse in the New York metropolitan area.

- The Research program advances the knowledge base in how people with vision loss function. This is the only research program housed within a vision rehabilitation organization addressing three primary areas: vision science, psychosocial studies and program evaluation.
- The Lighthouse Music School is the largest community music school program for people of all ages with vision loss in the United States.
- Professional Education offers accredited professional continuing education courses in low vision care and vision rehabilitation as well as paraprofessional training.
- Policy and Advocacy includes outreach to raise awareness of vision impairment; and advocacy initiatives, which promote the rights of people with vision loss and their inclusion in mainstream society.
- Public Information disseminates communications through various media outlets to raise widespread awareness of the prevalence of vision loss, and to promote the importance of prevention and early intervention, as well as the benefits of vision rehabilitation for people who are blind or visually impaired.

The Lighthouse is a Section 501(c)(3) not-for-profit organization and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). The Lighthouse has been classified as a publicly supported organization as described in Section 509(a)(1) of the Code and similar State of New York provisions.

Effective January 29, 2010, the Lighthouse became the sole member of National Association for the Visually Handicapped ("NAVH"), a Section 501(c)(3) not-for-profit organization exempt from federal income taxes. The Lighthouse acquired NAVH to continue its mission as the founder of NAVH planned to retire. As a result of the assets acquired from NAVH being more than the liabilities acquired from NAVH, the Lighthouse recognized a contribution of $3,486,241, which was recorded in the consolidated statement of activities for the year ended December 31, 2010. This contribution was recorded as an unrestricted contribution based on the classification of the assets acquired. During 2011, the programs previously administered by NAVH were fully integrated with those of the Lighthouse.

Effective June 24, 2011, the Lighthouse became the sole member of Lighthouse International Real Estate Holdings, LLC (the "LLC"), a Delaware limited liability company, wholly owned by the Lighthouse. The purpose of the LLC is to fulfill the terms of its mortgage loan agreement whereby the Lighthouse contributed its entire interest in the property known and designated as "The Sol and Lillian Goldman Building" located at 111 East 59th Street, New York, New York 10022 (the "Property") to the LLC to provide security to the Lender and to secure said loan. The LLC now holds the building and improvements and conducts the leasing activities of the Property.

The LLC is considered a disregarded entity for Federal income tax purposes and, as such, is covered under the Lighthouse's exemption.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared under the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. All significant intercompany balances and transactions have been eliminated.

Net Asset Classification

Resources are classified for accounting and financial reporting purposes based upon the existence or absence of donor imposed restrictions, as follows:

Permanently Restricted Net Assets - consists of funds that are subject to donor-imposed restrictions requiring that the corpus be retained in perpetuity or resources used at a Board appropriated spending rate for the purpose specified by the respective donors.

Temporarily Restricted Net Assets - consists of amounts restricted by donors and private grantors for specific Lighthouse activities or to be received at some future date. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions. However, when stipulations on donor-restricted contributions are met and the funds have been appropriated for expenditure, such amounts are released from restriction and reported as unrestricted net assets.

Unrestricted Net Assets - consists of resources available for the general support of the Lighthouse's operations. Unrestricted net assets may be used at the discretion of the Lighthouse's management and Board of Directors. At December 31, 2011 and 2010, the Lighthouse did not have any board-designated endowment funds.

Contributions

Contributions, including unconditional promises to give, are reported as revenues in the period received. Pledges received are discounted to reflect the present value of future cash flows using a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. In addition, contributions related to the "Special Leadership Gifts" are recorded separately in the consolidated statements of activities. Proceeds for the Special Leadership Gifts are intended to support the Lighthouse mission.

Cash and Cash Equivalents

The Lighthouse considers highly liquid investments with maturities within three months or less from date or purchase, except for those held in the investment portfolio, to be cash equivalents. The Lighthouse maintains its balances with high credit quality financial institutions that, at times, may exceed federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

Inventory

Inventory is carried at the lower of cost or market (determined by the last-in, first-out method) and totaled $184,394 and $152,635 as of December 31, 2011 and 2010, respectively. Such amounts are included in "Prepaid expenses, inventories and other assets" in the accompanying consolidated statements of financial position.

Accounts Receivable

Accounts receivable is comprised of amounts due from rental of the conference center space located at the Lighthouse's headquarters, grants receivable, vocational rehabilitation and other medical services and recorded at net realizable value. The allowance for doubtful accounts represents the Lighthouse's best estimate of probable losses based on aging and historical collection rates. Amounts recorded as accounts receivable do not bear interest.

Note Receivable

Note receivable is comprised of the amount due from the sale of the NAVH property. Note receivable is recorded at the net realizable value. Amounts recorded as note receivable do not bear interest.

Advertising Costs

Costs related to advertising of $244,277 and $271,965 were recorded for the years ended December 31, 2011 and 2010, respectively. Expenses related to advertising costs are expensed as they are incurred.

Fair Value Measurement

The Lighthouse measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date.

The Lighthouse also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and utilizes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Lighthouse has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable or are recorded at the net asset value.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Lighthouse's management with the consultation of Lighthouse's investment advisors. Management considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument.

Investments are stated at fair value based upon quoted market prices except for the fair values of alternative investments, which are based on net asset values provided by the general partners, based upon the underlying net assets of the funds (Note 4). With the assistance of third parties, these values are reviewed and evaluated by management. Investments in alternative investments are generally less liquid than other types of investments and the reported fair value may differ from the values that would have been reported had a ready market for these securities existed.

Split-Interest Agreements

The Lighthouse has a program to receive contributions under charitable gift annuity agreements. For financial reporting purposes, the Lighthouse has segregated these assets as separate and distinct funds, independent from other resources as such funds are used for annuity benefits specified in the agreements. Under these agreements, the Lighthouse agrees to pay a stated return annually to the beneficiaries as long as they live, after which time, the remaining assets are available for the Lighthouse's unrestricted use.

The Lighthouse's interest in charitable remainder trusts is reported at present value, reflecting the fair value of the amounts the Lighthouse expects to receive, discounted at a current rate of 2.0%, per year, for the periods prior to expected receipt. This amount is recorded within "Contributions, trusts and legacies receivable" in the accompanying consolidated statements of financial position.

Beneficial Interest in Perpetual Trusts

The Lighthouse is an income beneficiary of various trust funds held in perpetuity by others. As a result, the Lighthouse has recorded an asset based upon its percentage interest of the fair value of the underlying assets of the trust, which are predominantly Level 1 investments. Changes to the estimated net present value of income to be received are recognized as gains or losses in permanently restricted net assets in the accompanying consolidated statements of activities.

Property, Plant and Equipment

Property, plant and equipment with a unit cost in excess of $1,000 is carried at cost or at the fair value at the date of contribution, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: buildings - 30 years, building improvements - 25 to 30 years, and furniture, fixtures and equipment - 3 to 7 years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the terms of the respective leases.

Government Grants and Contracts

Revenues from government grants and contracts are recognized when earned. For outcome based contracts, revenue is recognized when the requirements of the contract are met. These outcomes are subsequently audited by the applicable government agency and adjustments may be recorded after review. Included in "Accounts payable and accrued expenses" in the accompanying statements of financial position is approximately $67,000 and $2,019,000 of deferred revenue at December 31, 2011 and 2010, respectively, related to amounts received for outcome based services that had not been earned.

Direct Client Services Income

Direct client services income represents income for the delivery of various programmatic services and optical dispensary sales which are recognized as revenue in the period in which services are rendered and product is delivered.

Deferred Financing Costs

In 2010, deferred financing costs represented costs associated with certain debt issuances and were amortized over the terms of the related financing, which ranged from 11 to 34 years. Accumulated amortization of deferred financing costs totaled approximately $562,000 at December 31, 2010. In 2011, Lighthouse paid off its bonds and as a result, wrote off the remaining deferred financing costs totaling approximately $1,013,000.

On June 27, 2011, the LLC entered into a mortgage loan agreement (Note 10) which resulted in deferred financing costs of approximately $539,000 that are being amortized over the 10 year term of the loan agreement. Accumulated amortization of deferred financing costs related to this agreement totaled approximately $30,000 at December 31, 2011.

Expense Allocations

Direct expenses are charged to the respective programs and supporting services based upon actual costs incurred. Indirect expenses, including joint costs, are allocated to the various programs and supporting services based upon estimates of square footage occupied, head count, level of effort or line-counts, as appropriate.

Volunteer Services and In-Kind Donations

A substantial number of volunteers have made significant contributions of their time to help develop the Lighthouse's programs and activities. The value of such volunteers' services has not been reflected in the accompanying consolidated financial statements as it does not meet the criteria for revenue recognition established by accounting principles generally accepted in the United States of America.

In-Kind donations of $23,090 and $173,817 were recorded at fair value for 2011 and 2010, respectively.

Special Events Revenue and Fundraising

Special events revenue consists of proceeds from fund-raising events, reported net of direct donor benefit, as applicable, and principally include the Annual Gala, Posh sales, Double Up 4 Vision and the Grunwald luncheon events. Revenue and related expenses are recognized upon occurrence of the event.

Conference Center

The Lighthouse generates revenues from rental to third parties of conference center space located in the Lighthouse headquarters and the sale of conference center services.

Revenues generated are utilized for the purpose of supporting Lighthouse's mission. Revenues and related expenses are recognized upon occurrence of the event.

Income Taxes

The Lighthouse follows the accounting guidance for uncertainties in income tax positions which require that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Lighthouse does not believe its activities result in any uncertain tax positions.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

Reclassifications

During 2011, the Lighthouse refined its method of estimating certain allocations in its functional expenses, specifically related to the rental and conference center. Accordingly, certain 2010 balances from the prior year for program service, development, administrative, rental and conference center costs have been reclassified to conform to the 2011 presentation. Such reclassification did not change total assets, liabilities, or changes in net assets as reflected on the 2010 consolidated financial statements.

Endowments of Not-for-Profit Organization

Historically, the Lighthouse followed the disclosure provisions of, "Endowments of Not-for-Profit Organizations," as the State of New York had not yet enacted a version of the Uniform Prudent Management of Institutional funds Act ("UPMIFA"). Among other things, this guidance addressed the net asset classification of donor restricted endowment funds for organizations subject to an enacted version of the 2006 UPMIFA. On September 17, 2010, New York State passed its own version of UPMIFA ("NYPMIFA") legislation, which was consequently applied to the Lighthouse's consolidated financial statements as of December 31, 2010.

A key component of this legislation is a requirement to classify the remaining accumulations related to the donor-restricted endowment fund that were previously recorded as additions to unrestricted net assets as temporarily restricted net assets until those amounts are appropriated for expenditure by the Lighthouse Board of Directors in a manner consistent with the standard of prudence prescribed by NYPMIFA. As a result of the adoption of NYPMIFA, the Lighthouse reclassified $7,210,223 as of December 31, 2010, from unrestricted net assets to temporarily restricted net assets, representing accumulated unspent earnings from donor-restricted endowment funds (see Note 7).

Subsequent Events

The Lighthouse evaluated its subsequent events through May 15, 2012, the date these consolidated financial statements were available to be issued. The Lighthouse is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

3. CONTRIBUTIONS, TRUSTS AND LEGACIES RECEIVABLE

At December 31, 2011 and 2010, trust receivables amounted to $4,308,542 and $4,869,502, respectively. For each of the years ended December 31, 2011 and 2010, the Lighthouse established a reserve for uncollectible trust receivables of $530,211.

In addition, at December 31, 2011 and 2010, contributions and legacies receivable were expected to be collected as follows:

	2011	2010
Within one year	$ 2,982,659	$ 2,660,384
One to five years	1,420,000	2,429,617
	4,402,659	5,090,001
Allowance for doubtful accounts	(151,471)	(172,708)
Discount to present value (at rates ranging from 2.78% to 4.30%)	(76,731)	(72,427)
	$ 4,174,457	$ 4,844,866

4. INVESTMENTS

Investments, at fair value, consisted of the following at December 31, 2011 and 2010:

	2011		2010	
	Fair Value	Cost or Donated Value	Fair Value	Cost or Donated Value
Money market funds	$ 1,941,640	$ 1,941,640	$ 2,196,888	$ 2,196,888
Equities	6,300,888	5,342,244	8,271,029	6,558,936
Equity mutual funds	6,069,177	6,108,830	8,081,252	7,634,566
Fixed income mutual funds	7,028,392	6,687,276	5,822,248	5,585,920
Alternative investments:				
Equity long/short	4,125,211	2,963,802	9,566,175	5,493,994
Multistrategy	11,737,644	10,640,609	11,158,033	7,212,486
	$ 37,202,952	$ 33,684,401	$ 45,095,625	$ 34,682,790

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 1,941,640	$ -	$ -	$ 1,941,640
Equities	6,300,888	-	-	6,300,888
Equity mutual funds	6,069,177	-	-	6,069,177
Fixed income mutual funds	7,028,392	-	-	7,028,392
Alternative investments:				
Equity long/short	-	-	4,125,211	4,125,211
Multistrategy	-	-	11,737,644	11,737,644
	$ 21,340,097	$ -	$ 15,862,855	$ 37,202,952

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 2,196,888	$ -	$ -	$ 2,196,888
Equities	8,271,029	-	-	8,271,029
Equity mutual funds	8,081,252	-	-	8,081,252
Fixed income mutual funds	5,822,248	-	-	5,822,248
Alternative investments:				
Equity long/short	-	-	9,566,175	9,566,175
Multistrategy	-	-	11,158,033	11,158,033
	$ 24,371,417	$ -	$ 20,724,208	$ 45,095,625

A reconciliation of Level 3 investments for the years ended December 31, 2011 and 2010 is as follows:

	2011		
	Equity Long/Short	**Multistrategy**	**Total**
Balance at December 31, 2010	$ 9,566,175	$ 11,158,033	$ 20,724,208
Purchases	-	4,515,345	4,515,345
Sales	(5,000,000)	(3,741,212)	(8,741,212)
Realized gains	2,469,808	2,653,990	5,123,798
Unrealized losses	(2,910,772)	(2,848,512)	(5,759,284)
Balance at December 31, 2011	$ 4,125,211	$ 11,737,644	$ 15,862,855

	2010		
	Equity Long/Short	**Multistrategy**	**Total**
Balance at December 31, 2009	$ 10,822,990	$ 9,484,014	$ 20,307,004
Purchases	-	3,252,519	3,252,519
Sales	(2,000,000)	(2,752,519)	(4,752,519)
Realized gains	1,482,176	1,281,780	2,763,956
Unrealized losses	(738,991)	(107,761)	(846,752)
Balance at December 31, 2010	$ 9,566,175	$ 11,158,033	$ 20,724,208

At December 31, 2011 and 2010, investments were categorized by the level of input as stipulated by the fair value hierarchy using the market value approach except for alternative investments. The fair value of alternative investments is determined by the Lighthouse's management for each investment based upon net asset values (NAV's) as provided by fund managers or general partners. The fair value of the underlying securities and other financial information of the alternative investments may involve estimates that require a degree of judgment. The financial statements of the funds are audited annually by independent auditors. In accordance with Accounting Standards Update 2009-12, the following table lists investments by major category which have reported fair value using a NAV:

2011

Alternative investment strategy	Number of funds	NAV in funds	Remining Life	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions
Alternative Investments:							
Multistrategy	8	$ 11,737,644	N/A	N/A	N/A	Monthly redemption with 30-90 days notice, quarterly redemption with 30-90 days notice, semi-annual redemption and annual redemption with 60 days notice	N/A
Equity Long/Short	2	4,125,211	N/A	N/A	N/A	Quarterly redemption with 30 days notice and annual redemption with 45 days notice	N/A
Total Alternative Investment	10	$ 15,862,855					

2010

Alternative investment strategy	Number of funds	NAV in funds	Remaining Life	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions
Alternative Investments:							
Multistrategy	5	$ 11,158,033	N/A	N/A	N/A	Monthly redemption with 30-90 days notice, quarterly redemption with 30-90 days notice and annual redemption with 60 days notice	N/A
Equity Long/Short	2	9,566,175	N/A	N/A	N/A	Quarterly redemption with 30 days notice and annual redemption with 45 days notice	N/A
Total Alternative Investment	7	$ 20,724,208					

Alternative investments classified as Level 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Lighthouse's interest therein, its classification in Level 3 is based on the Lighthouse's inability to redeem its interest at or near the date of the balance sheet. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Investment return for the years ended December 31, 2011 and 2010, consisted of the following:

	2011	2010
Interest and dividend income	$ 546,999	$ 619,401
Realized gains on investments	6,009,553	1,201,185
Net unrealized (loss) gain in fair market value of investments	(6,894,284)	2,900,597
Investment and custodian fees	(204,941)	(203,400)
	$ (542,673)	$ 4,517,783

5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net, consisted of the following at December 31, 2011 and 2010:

	2011	2010
Buildings and building improvements	$ 44,603,744	$ 44,444,410
Furniture, fixtures and equipment	10,571,555	12,434,321
	55,175,299	56,878,731
Less: accumulated depreciation and amortization	(31,741,735)	(32,475,163)
Land	353,490	353,490
	$ 23,787,054	$ 24,757,058

During 2011 and 2010, management retired fully depreciated assets totaling $2,226,621 and $1,276,528, respectively. Depreciation expense totaled $1,606,875 and $1,617,250 for the years ended December 31, 2011 and 2010, respectively.

Until June 26, 2011, the Property was pledged as collateral under the bond agreements (see Note 9). On June 27, 2011 the Lighthouse contributed the Property to the LLC and became the sole member of the LLC (see Notes 2 and 10).

6. RETIREMENT PLAN BENEFITS

Defined Benefit Plan

The Lighthouse had a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees hired before July 31, 2004. This Plan was amended effective December 31, 2005, with all employees entitled to benefits earned at that point and subject to future vesting under the terms of the Plan for those not vested at that date. Certain employees who met certain requirements were grandfathered into the Plan and continued to be eligible participants in the Plan. The Plan was fully frozen on June 30, 2007.

The Plan provided pension benefits that are based on the highest average employee compensation for five consecutive years during the last ten years of employment. The Lighthouse's funding policy is to contribute to the Plan in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974. The measurement date for the Plan is December 31.

Financial information regarding the Plan follows:

	2011	2010
Reconciliation of benefit obligation:		
Obligation at January 1	$ 42,735,828	$ 38,308,310
Interest cost	2,183,450	2,199,294
Actuarial loss	2,006,052	4,855,810
Benefit payments	(2,681,059)	(2,627,586)
Obligation at December 31	44,244,271	42,735,828
Reconciliation of fair value of Plan assets:		
Fair value of Plan assets at January 1	31,044,861	29,797,836
Actual return on Plan assets	222,365	3,034,505
Employer contributions	1,263,146	840,106
Benefit payments	(2,681,059)	(2,627,586)
Fair value of Plan assets at December 31	29,849,313	31,044,861
Components of accrued benefit costs:		
Funded status at December 31	(14,394,958)	(11,690,967)
Net amount recognized	$ (14,394,958)	$ (11,690,967)

Amounts recognized in the consolidated statements of financial position at December 31, 2011 and 2010 are as follows:

	2011	2010
Pension benefit liability	$ (14,394,958)	$ (11,690,967)

Other changes in pension benefit obligation recognized in unrestricted net assets at December 31, 2011 and 2010 are as follows:

	2011	2010
Net loss for period	$ 3,924,115	$ 4,124,942
Amortization of net loss	(440,351)	(483,265)
	$ 3,483,764	$ 3,641,677

The following table provides the components of the net periodic benefit cost of the Plan for the years ended December 31, 2011 and 2010:

	2011	2010
Interest cost	$ 2,183,450	$ 2,199,294
Expected return on Plan assets	(2,140,428)	(2,303,637)
Amortization of net loss	440,351	483,265
Net periodic benefit cost	$ 483,373	$ 378,922

The prior service cost is amortized on the straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and/or the fair value of assets are amortized over the average remaining service period of active participants.

Assumptions

The weighted-average assumptions used in the measurement of the benefit obligations are as follows:

	2011	2010
Discount rate	4.90 %	5.20 %
Expected return on Plan assets	7.50 %	8.00 %

The weighted average assumption used in the measurement of the net periodic cost for the years ended are as follows:

Discount rate	5.20 %	5.90 %

Investment Policy

Financial information regarding Plan assets follows:

	Allocations Target	Percentage of Plan Assets at December 31	
	2012	2011	2010
Plan assets:			
Equity securities	50%	55%	48%
Debt securities	25%	28%	24%
Other	25%	17%	28%

Fair Values of Plan Assets

The following table presents the Lighthouse's categorization of the assets of the pension plan within the fair value hierarchy as of December 31, 2011 and 2010:

	2011			
	Level 1	Level 2	Level 3	Total
Equity securities (a)	$ 13,990,120	$ -	$ -	$ 13,990,120
Debt securities (b)	8,193,634	-	-	8,193,634
Other (c)	296,124	-	7,369,435	7,665,559
	$ 22,479,878	$ -	$ 7,369,435	$ 29,849,313

	2010			
	Level 1	Level 2	Level 3	Total
Equity securities (a)	$ 14,979,585	$ -	$ -	$ 14,979,585
Debt securities (b)	7,527,094	-	-	7,527,094
Other (c)	766,290	-	7,771,892	8,538,182
	$ 23,272,969	$ -	$ 7,771,892	$ 31,044,861

a) Comprised of various equity securities which include U.S. large, mid-cap and small-cap equities.
b) Comprised of high yield debt and investment grade bonds.
c) Comprised of money market accounts, mutual funds and alternative investment funds.

The Lighthouse measures fair value using the market value approach for all investments except for alternative investments. Fair value of alternative investments is determined by the Lighthouse's management for each investment based upon net asset values as provided by fund managers or general partner. The fair value of the underlying securities and other financial information of the alternative investments may involve estimates that require a degree of judgment. The financial statements of the investee companies are audited annually by independent auditors.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2011:

Balance at December 31, 2010	$ 7,771,892
Purchase	2,500,000
Sales	(2,735,318)
Realized gain	732,623
Unrealized loss	(899,762)
Balance at December 31, 2011	$ 7,369,435

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2010:

Balance at December 31, 2009	$ 7,369,997
Sales	(302,647)
Realized gain	139,316
Unrealized gain	565,226
Balance at December 31, 2010	$ 7,771,892

Contributions

The Lighthouse's required contribution to the Plan in 2012 is $2,271,377.

Estimated Future Benefit Payments

The following pension benefits, which reflect expected future services, as appropriate, are expected to be paid as follows:

Year ending December 31,	
2012	$ 2,827,083
2013	2,831,393
2014	2,874,657
2015	2,890,764
2016	2,963,250
Thereafter	15,159,040

Defined Contribution Plan

Effective January 1, 2006, the Lighthouse instituted a defined contribution plan for its eligible employees. The costs for this plan amounted to $734,914 and $555,264 for the years ended December 31, 2011 and 2010, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS

The composition of temporarily restricted net assets for the years ended December 31, 2011 and 2010, follows:

	Fiscal 2011			
	December 31, 2010	Contributions and investment returns	Net assets released from restrictions	December 31, 2011
Time restricted	$ 9,887,077	$ 737,605	$ (2,520,423)	$ 8,104,259
Purpose restricted:				
Rehabilitation services	232,053	114,071	(268,318)	77,806
Child Development Center	620,563	(9,992)	(206,731)	403,840
Low vision services	260,964	93,750	(270,695)	84,019
Career and youth services	1,306,253	71,220	(387,353)	990,120
Music and print access services	1,758,591	(7,714)	(192,325)	1,558,552
Research	1,459,925	-	(37,079)	1,422,846
Education and advocacy	822,471	80,315	(176,338)	726,448
Scholarships	-	(19,009)	(130,554)	(149,563)
General use	5,380,624	-	-	5,380,624
Total purpose restricted	11,841,444	322,641	(1,669,393)	10,494,692
	$ 21,728,521	$ 1,060,246	$ (4,189,816)	$ 18,598,951

	Fiscal 2010				
	December 31, 2009	Contributions and investment returns	NYPMIFA reclass	Net assets released from restrictions	December 31, 2010
Time restricted	$ 7,998,423	$ 4,255,977	$ -	$ (2,367,323)	$ 9,887,077
Purpose restricted:					
Rehabilitation services	368,585	146,713	51,725	(334,970)	232,053
Child Development Center	356,272	68,625	388,891	(193,225)	620,563
Low vision services	312,087	43,316	-	(94,439)	260,964
Career and youth services	753,532	103,797	547,008	(98,084)	1,306,253
Music and print access services	1,378,687	178,378	715,999	(514,473)	1,758,591
Research	1,403,755	-	125,976	(69,806)	1,459,925
Education and advocacy	265,667	575,693	-	(18,889)	822,471
General use	-	-	5,380,624	-	5,380,624
Total purpose restricted	4,838,585	1,116,522	7,210,223	(1,323,886)	11,841,444
	$ 12,837,008	$ 5,372,499	$ 7,210,223	$ (3,691,209)	$ 21,728,521

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following at December 31, 2011 and 2010:

	2011	2010
General operations	$ 15,477,476	$ 15,580,834
Rehabilitation services	500,000	500,000
Child Development Center	826,106	826,106
Career and youth services	861,571	861,571
Music and print access services	1,919,327	1,919,327
eSight	1,697,158	1,697,158
Research	300,000	300,000
	$ 21,581,638	$ 21,684,996

Earnings on permanently restricted net assets are to be used in support of operations or specified program initiatives as stipulated by the respective donor. Included in the general operations category of permanently restricted net assets are third-party perpetual trusts received by the Lighthouse.

Endowments

The endowment is composed of 111 and 107 permanently restricted endowments as of December 31, 2011 and 2010, respectively and 15 perpetual trusts as of December 31, 2011 and 2010. Perpetual trusts were $8,738,232 and $9,191,592 as of December 31, 2011 and 2010, respectively. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, if any, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Lighthouse has implemented the NYPMIFA which requires the preservation of the fair 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 Lighthouse classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and the (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted nets assets until those amounts are appropriated for expenditure by the Lighthouse Board of Directors in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Lighthouse considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions and the possible effect of inflation or deflation; other resources of the institution; and the investment policy of the institution.

Endowment net assets consisted of the following at December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor endowment funds	$ -	$ 6,316,492	$ 12,843,406	$ 19,159,898

Endowment net assets consisted of the following at December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor endowment funds	$ -	$ 7,210,223	$ 12,493,406	$ 19,703,629

Changes in endowment net assets for the year ended December 31, 2011 follow:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2010	$ -	$ 7,210,223	$ 12,493,406	$ 19,703,629
Investment returns:				
Investment income	-	2,192,738	-	2,192,738
Net appreciation (depreciation)	-	(2,380,082)	-	(2,380,082)
Total investment return	-	(187,344)	-	(187,344)
Contributions	-	-	350,000	350,000
Appropriation of endowment assets for expenditure	-	(706,387)	-	(706,387)
Endowment net assets, December 31, 2011	$ -	$ 6,316,492	$ 12,843,406	$ 19,159,898

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2009	$ 6,693,674	$ -	$ 12,443,406	$ 19,137,080
Investment returns:				
Investment income	593,000	-	-	593,000
Net appreciation (depreciation)	1,064,157	-	-	1,064,157
Total investment return	1,657,157	-	-	1,657,157
Contributions	-	-	50,000	50,000
Appropriation of endowment assets for expenditure	(1,140,608)	-	-	(1,140,608)
Adoption of NYPMIFA	(7,210,223)	7,210,223	-	-
Endowment net assets, December 31, 2010	$ -	$ 7,210,223	$ 12,493,406	$ 19,703,629

Return Objectives and Risk Parameters

The Lighthouse's primary investment objectives are to invest its endowment principal to achieve growth of both principal value and income over time sufficient to preserve and/or increase the real (inflation adjusted) purchasing power of the assets, and to provide a stable source of perpetual financial support.

Strategies Employed for Achieving Objectives

The Lighthouse relies on a total return strategy in which active equity managers/funds are expected to achieve an annualized total rate of return over a three to five year period, which exceeds an agreed upon benchmark rate of return, net of costs and fees. Total return is defined as dividend and interest income plus realized and unrealized capital appreciation or depreciation. Active fixed income managers are expected to exceed appropriate market indices, net of costs and fees. When index funds are used, the return should closely track the appropriate index.

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 NYPMIFA requires the Lighthouse to retain as a fund of permanent duration. At December 31, 2011 and 2010, there were no aggregate deficiencies of this nature reported within unrestricted net assets.

9. BONDS PAYABLE

During fiscal year 1999, the Lighthouse issued $38,055,000 in tax-exempt term bonds and $11,535,000 in tax-exempt serial bonds (collectively, the “Series 1998W” bonds) through the New York City Industrial Development Agency (“IDA”) that refinanced the Series 1992 bond issue also financed the acquisition and installation of hardware and software related to the Lighthouse’s information systems. The Series 1992 bonds provided funds for the demolition, construction, acquisition, equipping and installation of a civic facility in New York City (the “Facility”). At December 31, 2010, bonds outstanding, net of original issuance discount of $1,605,943 amounted to $38,544,057.

The Lighthouse was required to place six months of debt service principal and interest payments in a separate restricted account prior to June 30 and six months of interest prior to December 31 each year. Accordingly, the Lighthouse held $907,711 in this account at December 31, 2010, which was invested in short-term investments and is reflected in the accompanying statements of financial position as funds held by trustee. On the first business day of each January, the IDA automatically retrieved those funds for debt interest. On the first business day of each July, the IDA automatically retrieved those funds for debt principal repayment and debt interest.

The Facility was owned by the Lighthouse and leased by the Lighthouse to the IDA and subleased by the IDA to the Lighthouse pursuant to a lease agreement (the “Agreement”). The Series 1998W bonds were payable by the IDA, through a third-party trustee, solely from the lease rentals payable by the Lighthouse pursuant to the Agreement. The Series 1998W bonds were secured by a security interest in the Lighthouse’s gross revenues. In addition, payment of the principal and interest on the Series 1998 bonds when due was insured. The Lighthouse entered into a third amendment to the Agreement, whereby a mortgage and security interest in the facility was granted to the third-party trustee. In connection with this amendment and granting of the mortgage, the Lighthouse’s covenant requiring a ratio of unrestricted marketable securities to outstanding bonds payable was reduced from 100% to 70%.

As part of the enactment of NYPMIFA, the Lighthouse transferred $7.2 million of unrestricted marketable securities to temporarily restricted marketable securities. As a result of this transfer, the ratio of unrestricted marketable securities to the outstanding bonds payable was reduced from 73% to 54%.

Accordingly, the Lighthouse obtained a waiver for the failure of the 70% debt covenant requirement dated May 20, 2011.

The Series 1998W serial bonds matured in various amounts, ranging from $750,000 to $1,070,000 per year, through 2012. The $7,540,000, $8,035,000 and $22,480,000 Series 1998W term bonds were due July 1, 2018, 2023 and 2033, respectively. The nominal interest rates attributable to the Series 1998W serial bonds ranged from 3.35% to 4.5%. The nominal interest rates attributable to the Series 1998W term bonds were 4.625% (2018) and 4.5% (2023 and 2033).

The Lighthouse used quoted market prices in estimating the fair value of the 1998W bonds. The fair value of 1998W several bond's was $0 and $39,121,091, respectively, at December 31, 2011 and 2010. Fair value of long-term debt was determined using the market approach.

On June 27, 2011 the bonds were paid off in their entirety with a final payment of $41,038,761.

10. MORTGAGE LOAN PAYABLE

The LLC entered into a $45,000,000 mortgage loan agreement (the "Loan") with Ladder Capital Finance LLC on June 27, 2011. Simultaneously, the Lighthouse entered into a Guarantor Agreement with the lender and, in August of 2011 the loan was securitized. The term of the Loan is 10 years, interest only for the first five years, and principal and interest payable under a 30 year amortization schedule for the last five years. The interest rate is fixed at 5.87%. Debt service will be reduced by $580,000 annually for the last five years. There will be a balloon payment at the end of 10 years of approximately $42.1 million. Payment of the Loan is secured by, among other collateral, a first mortgage against the land, building and improvements of the Property. The LLC is fully obligated to pay when due all amounts extended under the Loan. The Loan is without recourse to both the Lighthouse and the LLC, however pursuant to the Loan Agreement and the Guaranty, respectively, the Lighthouse and the LLC may be liable for certain losses incurred by the Lender or, in some cases the full amount of the Loan.

The Loan also requires the Lighthouse and the LLC to comply with certain affirmative and negative covenants. At December 31, 2011, the Lighthouse and the LLC were not in compliance with certain of the covenant requirements.

Scheduled amounts to be deposited in the debt service reserve fund for principal payments follow:

Period ending December 31,	
2012	$ -
2013	-
2014	-
2015	-
2016	209,599
Thereafter	44,790,401
Total principal	$ 45,000,000

11. ALLOCATION OF JOINT COSTS

For the years ended December 31, 2011 and 2010, the Lighthouse incurred joint costs of $1,320,401 and $1,172,691, respectively, for programmatic information materials and activities that also included fund-raising appeals. Of these amounts, the Lighthouse allocated $954,879 and $850,216 to fund-raising expense and $365,522 and $322,475 to program expenses, respectively.

12. GOVERNMENT GRANTS AND CONTRACTS

Government grants and contracts consisted of the following for the years ended December 31, 2011 and 2010:

	2011	2010
Research grants	$ 221,763	$ 825,261
Direct services contracts	2,337,579	1,927,518
Fees for educational services	3,406,404	3,087,142
	$ 5,965,746	$ 5,839,921

13. COMMITMENTS AND CONTINGENCIES

Related Party Lease

As part of the LLC's mortgage loan agreement, the Lighthouse entered into a 15 year master lease agreement with the LLC for space located at the Property. The Lighthouse utilizes this space for various programmatic services and its conferencing center activities. All intercompany rental income and expense is eliminated in consolidation. If any rented space at the Property shall become vacant for 90 days or more, the LLC shall then add that space to the Lighthouse master lease.

Third Party Leases

The Lighthouse is a party to various noncancelable operating lease agreements for the rental of office space and equipment. In some cases, these leases contain requirements for the Lighthouse to pay certain operating costs. Future minimum rental commitments on such leases are as follows:

Year ending December 31,	
2012	$ 601,126
2013	118,736
2014	119,371
2015	120,018
2016	27,442
	$ 986,693

Rent expense totaled $781,210 and $786,031 for the years ended December 31, 2011 and 2010, respectively, and is included within occupancy on the accompanying consolidated statement of functional expenses with utilities, equipment usage fees and other leasing activities.

In connection with an expense reduction plan, the Lighthouse closed a facility leased in Queens effective June 30, 2004. The lease in Queens runs until August 2012. The Lighthouse subleased this space effective July 2004 until August 2012 at a rate below its cost. The net present value of the future net outflow relating to the Queens lease was $213,272 as of December 31, 2010. However, as of December 31, 2011, the Lighthouse and Con Edison are in the process of negotiating an early settlement. As a result, the amount recorded as deferred rent liability, included in "Accounts payable and accrued expenses" in the accompanying consolidated statements of financial position, was adjusted from $587,956 at December 31, 2010 to $365,000 at December 31, 2011 to better reflect the terms of the proposed settlement.

Future rental income expected under these leases is as follows:

Year ending December 31,	
2012	$ 2,580,057
2013	2,230,429
2014	2,289,782
2015	2,100,756
2016	1,800,003
Thereafter	702,730

Litigation

The Lighthouse is subject to various legal proceedings and claims that arise in the ordinary course of business. Liabilities, if any, are accrued when it is probable that related costs will be incurred and can be reasonably estimated. Given the nature of matters involved, it is possible that liabilities will be incurred in excess of amounts currently recorded. However, based upon available information, management believes that the ultimate liability with respect to these matters will not have a material effect on the accompanying consolidated financial position, changes in net assets or cash flows of the Lighthouse.

14. RELATED PARTIES

A member of the Board of Directors of the Lighthouse is a partner at a law firm which provides certain legal services which approximate market value. Legal fees paid to this firm were approximately $6,000 and $129,000 for fiscal years ended December 31, 2011 and 2010, respectively.

SUPPLEMENTARY INFORMATION

LIGHTHOUSE INTERNATIONAL AND AFFILIATE
Schedule of Functional Expenses
For the years ended December 31, 2011 and 2010

	2011	2010
Program services:		
Child Development Center	$ 4,524,402	$ 3,976,727
Rehabilitation and youth services	2,121,458	2,517,096
Low vision services	2,266,951	2,166,608
Early Intervention	1,750,660	1,789,871
Career and youth services	1,121,690	1,185,847
Volunteers and reading services	1,085,639	954,804
Consumer products	1,007,874	944,864
Social Services	638,184	1,127,655
Outreach	238,504	439,331
Research	432,483	833,125
Music School	1,950,476	1,686,286
Professional Education	443,676	508,177
Policy and advocacy	809,466	1,017,677
Public information	2,133,817	2,587,297
Total program services	20,525,280	21,735,365
Supporting services:		
Development	3,653,008	3,450,613
Administrative and general	2,459,302	3,874,102
Total supporting services	6,112,310	7,324,715
Total expenses (Note 2)	$ 26,637,590	$ 29,060,080

This schedule should be read on conjunction with the accompany report of independent certified public accountants, consolidated financial statements and notes thereto.