Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

LIGHTHOUSE INTERNATIONAL AND AFFILIATE

December 31, 2012 and 2011

LIGHTHOUSE INTERNATIONAL AND AFFILIATE

TABLE OF CONTENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Lighthouse International and Affiliate:

Report on the financial statements

We have audited the accompanying consolidated financial statements of Lighthouse International and Affiliate (collectively, the "Lighthouse") which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Lighthouse's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lighthouse's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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, 2012 and 2011, and the consolidated changes in their net assets and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information as listed in the table of contents and presented on page __ for the years ended December 31, 2012 and 2011 is presented for purposes of additional analysis and is not a required part of the 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 the 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. 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
March 27, 2013

LIGHTHOUSE INTERNATIONAL AND AFFILIATE
Consolidated Statements of Financial Position
As of December 31, 2012 and 2011

ASSETS	2012	2011
Cash and cash equivalents	$ 3,547,383	$ 4,294,667
Accounts receivable, net of allowance for doubtful accounts of approximately $739,000 in 2012 and $180,000 in 2011	1,405,204	1,511,626
Prepaid expenses, inventories and other assets	1,079,763	1,406,729
Note receivable	1,140,000	1,520,000
Contributions, trusts and legacies receivable, net of allowances and reserves of approximately $1,035,000 in 2012 and $682,000 in 2011 (Note 3)	6,465,794	7,952,788
Investments (Note 4)	33,651,830	37,202,952
Investments held under charitable split-interest agreements	3,375,098	3,401,789
Funds held by trustee (Notes 9 and 10)	399,906	147,447
Deferred financing costs, net (Note 2)	457,943	508,415
Property, plant and equipment, net (Notes 5 and 10)	22,545,827	23,787,054
Beneficial interest in perpetual trusts	9,218,096	8,738,232
Total assets	$ 83,286,844	$ 90,471,699

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	$ 4,660,796	$ 5,414,334
Liabilities under charitable split-interest agreements	2,219,690	2,323,326
Mortgage loan payable (Note 10)	45,000,000	45,000,000
Retirement benefits (Note 6)	14,724,100	14,394,958
Total liabilities	66,604,586	67,132,618
Commitments and contingencies (Note 13)		
NET ASSETS		
Unrestricted	(14,218,193)	(16,841,508)
Temporarily restricted (Note 7)	8,838,949	18,598,951
Permanently restricted (Note 8)	22,061,502	21,581,638
Total net assets	16,682,258	23,339,081
Total liabilities and net assets	$ 83,286,844	$ 90,471,699

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, 2012 and 2011

	Unrestricted		Temporarily		Permanently		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
SUPPORT AND REVENUES								
Contributions	$ 2,240,966	$ 2,599,302	$ 639,976	$ 304,171	$ -	$ 350,000	$ 2,880,942	$ 3,253,473
Special Leadership Gifts	921,363	175,813	239,562	-	-	-	1,160,925	175,813
Special events revenue, net of direct donor benefit costs of $667,608 and $581,854 in 2012 and 2001, respectively	1,650,500	1,465,827	-	-	-	-	1,650,500	1,465,827
Legacies	394,946	3,272,462	2,880,000	1,524,606	-	-	3,274,946	4,797,068
Sales of consumer and professional products	431,765	495,130	-	-	-	-	431,765	495,130
Government grants (Note 12)	5,619,007	5,965,746	-	-	-	-	5,619,007	5,965,746
Investment return (loss) (Note 4)	751,305	(865,313)	2,849,496	322,640	-	-	3,600,801	(542,673)
Distributions from perpetual trusts	442,238	326,786	-	-	-	-	442,238	326,786
Change in split-interest agreements and beneficial interest in perpetual trusts	27,740	532,255	92,742	(560,960)	479,864	(453,358)	600,346	(482,063)
Facility rental and conference center income (Note 10)	4,677,456	4,208,099	-	-	-	-	4,677,456	4,208,099
Direct client services income	1,548,285	1,636,512	-	-	-	-	1,548,285	1,636,512
Other income	184,545	408,608	-	-	-	-	184,545	408,608
Net assets released from temporary restrictions (Note 7)	16,461,778	4,189,816	(16,461,778)	(4,189,816)	-	-	-	-
Total support and revenues (Note 9)	35,351,894	24,411,043	(9,760,002)	(2,599,359)	479,864	(103,358)	26,071,756	21,708,326
EXPENSES								
Program services (Notes 2 and 11)	18,931,648	20,525,280	-	-	-	-	18,931,648	20,525,280
Supporting services	6,249,795	6,112,310	-	-	-	-	6,249,795	6,112,310
Facility rental and conference center	5,104,971	3,787,101	-	-	-	-	5,104,971	3,787,101
Total expenses	30,286,414	30,424,691	-	-	-	-	30,286,414	30,424,691
Change in net assets before nonrecurring items	5,065,480	(6,013,648)	(9,760,002)	(2,599,359)	479,864	(103,358)	(4,214,658)	(8,716,365)
Change in minimum liability for pension benefits (Note 6)	(1,673,575)	(3,483,764)	-	-	-	-	(1,673,575)	(3,483,764)
Loss on extinguishment of bonds	-	(2,581,145)	-	-	-	-	-	(2,581,145)
Separation offer	(768,590)	(600,000)	-	-	-	-	(768,590)	(600,000)
Reclassification of assets	-	530,211	-	(530,211)	-	-	-	-
Change in net assets	2,623,315	(12,148,346)	(9,760,002)	(3,129,570)	479,864	(103,358)	(6,656,823)	(15,381,274)
Net assets, beginning 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
Net assets, end of year	$ (14,218,193)	$ (16,841,508)	$ 8,838,949	$ 18,598,951	$ 22,061,502	$ 21,581,638	$ 16,682,258	$ 23,339,081

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, 2012

		Supporting Services				
	Total Program Services	Development	Administrative and General	Total	Facility Rental and Conference Center	Total Expenses
Salaries	$ 9,008,780	$ 1,469,178	$ 928,604	$ 11,406,562	$ 999,809	$ 12,406,371
Employee benefits	2,610,061	451,866	258,416	3,320,343	255,074	3,575,417
Travel and entertainment	65,866	39,895	67,104	172,865	-	172,865
Catering	-	-	-	-	372,788	372,788
Professional services	2,013,063	494,542	832,603	3,340,208	219,921	3,560,129
Supplies and equipment	175,660	13,850	18,404	207,914	66,572	274,486
Occupancy	1,281,774	220,848	87,852	1,590,474	890,485	2,480,959
Postage and printing	244,590	328,892	4,892	578,374	8,777	587,151
Miscellaneous	559,898	669,737	-	1,229,635	332,615	1,562,250
Cost of goods sold	570,403	-	-	570,403	-	570,403
Interest expense	1,407,873	193,269	65,330	1,666,472	1,215,377	2,881,849
Total expenses before depreciation and amortization	17,937,968	3,882,077	2,263,205	24,083,250	4,361,418	28,444,668
Depreciation and amortization	993,680	77,253	27,260	1,098,193	743,553	1,841,746
Total (Note 2)	$18,931,648	$ 3,959,330	$ 2,290,465	$ 25,181,443	$ 5,104,971	$ 30,286,414

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, 2011

	Total Program Services	Supporting Services Development	Supporting Services Administrative and General	Supporting Services Total	Facility Rental and Conference Center	Total Expenses
Salaries	$ 10,672,083	$ 1,782,775	$ 1,103,142	$ 13,558,000	$ 753,046	$ 14,311,046
Employee benefits	2,925,836	509,493	279,831	3,715,160	168,247	3,883,407
Travel and entertainment	109,767	72,768	62,741	245,276	-	245,276
Catering	-	-	-	-	287,446	287,446
Professional services	1,766,610	459,863	818,531	3,045,004	170,231	3,215,235
Supplies and equipment	247,027	17,100	42,228	306,355	88,051	394,406
Occupancy	1,064,765	204,298	40,253	1,309,316	530,436	1,839,752
Postage and printing	374,956	243,212	4,936	623,104	8,031	631,135
Miscellaneous	467,313	105,923	27,236	600,472	106,790	707,262
Cost of goods sold	578,482	2,029	-	580,511	-	580,511
Interest expense	1,307,551	177,787	58,187	1,543,525	936,402	2,479,927
Total expenses before depreciation and amortization	19,514,390	3,575,248	2,437,085	25,526,723	3,048,680	28,575,403
Depreciation and amortization	1,010,890	77,760	22,217	1,110,867	738,421	1,849,288
Total (Note 2)	$ 20,525,280	$ 3,653,008	$ 2,459,302	$ 26,637,590	$ 3,787,101	$ 30,424,691

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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (6,656,823)	$ (15,381,274)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in minimum pension liability	1,673,575	3,483,764
Provision for bad debt expense, accounts receivable	(558,476)	(500,128)
Provisions for bad debt expense, contributions	348,352	(21,237)
Depreciation and amortization	1,791,274	1,757,322
Write-off of deferred financing	-	1,013,130
Amortization of deferred financing	50,472	53,260
Write off and amortization of bond discount	-	1,605,943
Net realized and unrealized (gains) losses on investments	(3,341,733)	884,729
Change in value of split-interest agreements	(76,945)	(137,252)
Permanently restricted contributions	-	(350,000)
Change in beneficial interest in perpetual trusts	(479,864)	453,360
Changes in assets and liabilities:		
Accounts receivable	664,899	333,494
Prepaid expenses, inventories and other assets	326,965	(981,419)
Contributions, trusts and legacies receivable	1,138,642	1,252,606
Accounts payable and accrued expenses	(753,538)	(1,673,731)
Obligation for leases at closed facilities	-	(213,272)
Retirement benefits	(1,344,433)	(779,773)
Net cash used in operating activities	(7,217,633)	(9,200,478)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,715,898)	(14,241,808)
Proceeds from sales of investments	11,608,753	21,249,752
Property, plant and equipment additions	(550,047)	(787,318)
Change in investments restricted to use	-	1,055,022
Net cash provided by investing activities	6,342,808	7,275,648
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	-	350,000
Principal payments on bonds payable	-	(40,150,000)
Proceeds from mortgage loan payable	-	45,000,000
Deferred financing on mortgage loan payable	-	(538,650)
Proceeds from note receivable	380,000	380,000
Funds held by trustee	(252,459)	(147,447)
Net cash provided by financing activities	127,541	4,893,903
Net (decease) increase in cash and cash equivalents	(747,284)	2,969,073
Cash and cash equivalents, beginning of year	4,294,667	1,325,594
Cash and cash equivalents, end of year	$ 3,547,383	$ 4,294,667
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 2,881,849	$ 2,077,436

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 its various programs and 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 Ethel and Samuel J. LeFrak Child Development Center provides comprehensive educational 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 examinations by Optometrists specializing in low vision to evaluate a person's remaining vision and overall visual function. The goals of which are to maximize existing vision – often with the use of prescribed optical devices and technology– and to enhance patient's quality of life at any age.
- Early Intervention services are 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, volunteering in support of Lighthouse programs and its 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 and 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. Services are provided in individual and group settings.

- 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 Lighthouse International in the New York metropolitan area.
- The Arlene R. Gordon Research Institute conducts studies designed to translate scientific findings and advances in technology into practical solutions that can help people who are visually impaired function more effectively in everyday life.
- 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.

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. During 2012 and 2011, the programs previously administered by NAVH were fully integrated with those of the Lighthouse.

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 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 permanently 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.

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, 2012 and 2011, 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, while contributions related to the "Special Leadership Gifts" are presented separately in the accompanying consolidated statements of activities, they are intended to support the Lighthouse operations.

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 $192,061 and $184,394 as of December 31, 2012 and 2011, respectively. Such amounts are included in "Prepaid expenses, inventories and other assets" in the accompanying consolidated statements of financial position.

Accounts Receivable

Accounts receivable do not bear interest and, are 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, 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 trends.

Note Receivable

The note receivable represents the balance due from the sale of the NAVH property. This note receivable is recorded at the net realizable value and earns 5% interest per annum.

Advertising Costs

Costs related to advertising of $246,204 and $244,277 were recorded for the years ended December 31, 2012 and 2011, respectively. Advertising costs are expensed as incurred and charged to the respective activity benefited.

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 and those using net asset value ("NAV") per share that are redeemable at NAV within 90 days.

Level 3 - Inputs that are unobservable or are recorded at the NAV, for which restrictions exist.

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.. Management with the consultation of

Lighthouse's investment advisors 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 1.2% and 2.0%, per year, for the periods prior to expected receipt in 2012 and 2011, respectively. 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 at the trust level 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 capitalized 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 such review. Included in "Accounts payable and accrued expenses" in the accompanying statements of financial position is approximately $113,000 and $67,000 of deferred revenue at December 31, 2012 and 2011, 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

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 $81,000 and $30,000 at December 31, 2012 and 2011 respectively.

In 2011, 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. Lighthouse paid off its bonds and as a result, wrote off the remaining deferred financing costs totaling approximately $1,013,000.

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

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.

Special Events Revenue and Fundraising

Special events revenue consists of proceeds from fund-raising events, reported net of direct donor benefit costs, 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.

Subsequent Events

The Lighthouse evaluated its subsequent events through March 27, 2013, 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, 2012 and 2011, trust receivables amounted to $3,750,897 and $4,308,542, respectively. For each of the years ended December 31, 2012 and 2011, the Lighthouse established a reserve for uncollectible trust receivables of $500,062 and $530,211, respectively.

In addition, at December 31, 2012 and 2011, contributions and legacies receivable were expected to be collected as follows:

	2012	2011
Within one year	$ 1,332,563	$ 2,982,659
One to five years	2,489,099	1,420,000
	3,821,662	4,402,659
Allowance for doubtful accounts	(534,891)	(151,471)
Discount to present value (at rates ranging from 1.23% to 2.20%)	(71,812)	(76,731)
	$ 3,214,959	$ 4,174,457

4. INVESTMENTS

Investments, at fair value, consisted of the following at December 31, 2012 and 2011:

	2012		2011	
	Fair Value	Cost or Donated Value	Fair Value	Cost or Donated Value
Money market funds	$ 5,218,654	$ 5,218,654	$ 1,941,640	$ 1,941,640
Equities	3,104,499	2,485,564	6,300,888	5,342,244
Equity mutual funds	7,155,670	5,745,297	6,069,177	6,108,830
Fixed income mutual funds	5,420,735	5,120,971	7,028,392	6,687,276
Alternative investments:				
Equity long/short	3,064,393	1,415,015	4,125,211	2,963,802
Multistrategy	9,687,879	8,535,515	11,737,644	10,640,609
	$ 33,651,830	$ 28,521,015	$ 37,202,952	$ 33,684,400

	2012			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 5,218,654	$ -	$ -	$ 5,218,654
Equities	3,104,499	-	-	3,104,499
Equity mutual funds	7,155,670	-	-	7,155,670
Fixed income mutual funds	5,420,735	-	-	5,420,735
Alternative investments:				
Equity long/short	-	-	3,064,393	3,064,393
Multistrategy	-	-	9,687,879	9,687,879
	$ 20,899,558	$ -	$ 12,752,272	$ 33,651,830

	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

Investment balances include approximately $2,811,000 in 2012 and $3,345,000 in 2011 for the benefit of Lighthouse International Real Estate Holdings LLC, the use of which has been designated for renovation of the 59th street property.

A reconciliation of Level 3 investments for the years ended December 31, 2012 and 2011 follows:

	2012		
	Equity Long/Short	Multistrategy	Total
Balance at December 31, 2011	$ 4,125,211	$ 11,737,644	$ 15,862,855
Purchases	-	668	668
Sales	(1,545,567)	(3,182,562)	(4,728,129)
Realized (loss) gain	(3,220)	349,049	345,829
Unrealized gains	487,969	783,080	1,271,049
Balance at December 31, 2012	$ 3,064,393	$ 9,687,879	$ 12,752,272

	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

At December 31, 2012 and 2011, 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 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:

2012							
Alternative investment strategy	Number of funds	NAV in funds	Remining Life	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions
Multistrategy	7	$ 9,687,879	N/A	N/A	N/A	Monthly redemption with 30 and 92 days notice, semi-annual redemption with 60 days notice and annual redemption with 60 days notice	N/A
Equity Long/Short	2	3,064,393	N/A	N/A	N/A	Quarterly redemption with 30 days notice and annual redemption with 45 days notice	N/A
Total	9	$ 12,752,272					

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
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	10	$ 15,862,855					

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, 2012 and 2011, consisted of the following:

	2012	2011
Interest and dividend income	$ 454,068	$ 546,999
Realized gains on investments	1,581,122	6,009,553
Net unrealized gain(loss) in fair market value of investments	1,760,611	(6,894,284)
Investment and custodian fees	(195,000)	(204,941)
	$ 3,600,801	$ (542,673)

5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net, consisted of the following at December 31, 2012 and 2011:

	2012	2011
Building and building improvements	$ 44,911,036	$ 44,603,744
Furniture, fixtures and equipment	10,663,862	10,571,555
	55,574,898	55,175,299
Less: accumulated depreciation	(33,382,561)	(31,741,735)
Land	353,490	353,490
	$ 22,545,827	$ 23,787,054

During 2012 and 2011, management retired fully depreciated assets totaling $0 and $2,226,621, respectively. Depreciation expense totaled $1,640,826 and $1,606,875 for the years ended December 31, 2012 and 2011, respectively.

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

	2012	2011
Reconciliation of benefit obligation:		
Obligation at January 1	$ 44,244,271	$ 42,735,828
Interest cost	2,076,320	2,183,450
Actuarial loss	3,803,867	2,006,052
Benefit payments	(2,756,942)	(2,681,059)
Obligation at December 31	47,367,516	44,244,271
Reconciliation of fair value of Plan assets:		
Fair value of Plan assets at January 1	29,849,313	31,044,861
Actual return on Plan assets	3,691,409	222,365
Employer contributions	1,859,636	1,263,146
Benefit payments	(2,756,942)	(2,681,059)
Fair value of Plan assets at December 31	32,643,416	29,849,313
Components of accrued benefit costs:		
Funded status at December 31	(14,724,100)	(14,394,958)
Net amount recognized	$ (14,724,100)	$ (14,394,958)

Amounts recognized in the consolidated statements of financial position at December 31, 2012 and 2011, follows:

	2012	2011
Pension benefit liability	$ (14,724,100)	$ (14,394,958)

Other changes in pension benefit obligation recognized in unrestricted net assets at December 31, 2012 and 2011 are as follows:

	2012	2011
Net loss for period	$ 2,202,876	$ 3,924,115
Amortization of net loss	(529,301)	(440,351)
	$ 1,673,575	$ 3,483,764

The following table provides the components of the net periodic benefit cost of the Plan for the years ended December 31, 2012 and 2011:

	2012	2011
Interest cost	$ 2,076,320	$ 2,183,450
Expected return on Plan assets	(2,090,418)	(2,140,428)
Amortization of net loss	529,301	440,351
Net periodic benefit cost	$ 515,203	$ 483,373

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:

	2012	2011
Discount rate	4.03 %	4.90 %
Expected return on Plan assets	7.50 %	7.50 %

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

	2012	2011
Discount rate	4.90 %	5.20 %

Investment Policy

Financial information regarding Plan assets follows:

	Target	Assets at December 31	
	2013	2012	2011
Plan assets:			
Equity securities	62%	51%	55%
Debt securities	33%	28%	28%
Other	5%	21%	17%

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, 2012 and 2011:

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities (a)	$ 926	$ -	$ -	$ 926
Common Collective Trust (b)	-	26,490,611	-	26,490,611
Other (c)	265,402	-	5,886,475	6,151,877
	$ 266,328	$ 26,490,611	$ 5,886,475	$ 32,643,414

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities (a)	$ 13,990,120	$ -	$ -	$ 13,990,120
Debt securities (d)	8,193,634	-	-	8,193,634
Other (c)	41,458	254,666	7,369,435	7,665,559
	$ 22,225,212	$ 254,666	$ 7,369,435	$ 29,849,313

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

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, 2012:

Balance at December 31, 2011	$ 7,369,435
Purchase	1,000,000
Sales	(3,035,497)
Realized gain	933,245
Unrealized loss	(380,708)
Balance at December 31, 2012	$ 5,886,475

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

Contributions

The Lighthouse's required contribution to the Plan in 2013 is $572,589.

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,	
2013	$ 2,761,000
2014	2,797,000
2015	2,809,000
2016	2,886,000
2017	2,931,000
2018-2022	14,951,000

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 $561,097 and $734,914 for the years ended December 31, 2012 and 2011, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS

The composition of temporarily restricted net assets for the years ended December 31, 2012 and 2011, follows:

	Fiscal 2012			
	December 31, 2011	Contributions and investment returns	Net assets released from restrictions	December 31, 2012
Time restricted	$ 8,104,259	$ 3,212,304	$ (4,315,879)	$ 7,000,684
Purpose restricted:				
Rehabilitation & youth	77,806	79,854	(131,659)	26,001
Child development center	403,840	83,296	(451,516)	35,620
Low vision services	84,019	334,100	(285,044)	133,075
Career	990,120	28,264	(1,004,649)	13,735
Music school	1,558,552	358,509	(1,673,436)	243,625
Research	1,422,846	13,500	(1,388,046)	48,300
Education	726,448	28,977	(733,206)	22,219
Scholarships	(149,563)	1,669,299	(629,159)	890,577
Other purposes	5,380,624	893,674	(5,849,185)	425,113
Total purpose restricted	10,494,692	3,489,472	(12,145,899)	1,838,265
	$ 18,598,951	$ 6,701,776	$ (16,461,778)	$ 8,838,949

	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)
Other purposes	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

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following at December 31, 2012 :

	2012	2011
General operations	$ 17,546,225	$ 17,066,361
Rehabilitation & youth services	500,000	500,000
Child development center	685,000	685,000
Career services	264,144	264,144
Music school	1,612,971	1,612,971
Education services	150,000	150,000
Scholarships	1,303,162	1,303,162
	$ 22,061,502	$ 21,581,638

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 permanently restricted endowments as of December 31, 2012 and 2011, respectively and 15 perpetual trusts as of December 31, 2012 and 2011. Perpetual trusts were $9,218,096 and $8,738,232 as of December 31, 2012 and 2011, 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, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor endowment funds	$ -	$ 1,329,425	$ 12,843,406	$ 14,172,831

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

Changes in endowment net assets for the year ended December 31, 2012 and 2011 follow:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2011	$ -	$ 6,316,492	$ 12,843,406	$ 19,159,898
Investment returns:				
Investment income	-	700,018	-	700,018
Net appreciation	-	669,983	-	669,983
Total investment return	-	1,370,001	-	1,370,001
Contributions	-	-	-	-
Endowment earnings expended in accordance with donor-imposed restrictions	-	(295,780)	-	(295,780)
Appropriation of pre-NYPMIFA accumulated earnings	-	(318,961)	-	(318,961)
Board resolutions for appropriation of pre-NYPMIFA accumulated earnings	-	(5,742,327)	-	(5,742,327)
Endowment net assets, December 31, 2012	$ -	$ 1,329,425	$ 12,843,406	$ 14,172,831

	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 depreciation	-	(2,380,082)	-	(2,380,082)
Total investment return	-	(187,344)	-	(187,344)
Contributions	-	-	350,000	350,000
Appropriation of endowment earnings for expenditure	-	(706,387)	-	(706,387)
Endowment net assets, December 31, 2011	$ -	$ 6,316,492	$ 12,843,406	$ 19,159,898

In 2012, with the advice of counsel, the Lighthouse Board of Directors appropriated for expenditure $5,742,327 of pre-NYPMIFA accumulated gains in addition to amounts appropriated for expenditure under its annual spending rate formula.

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, 2012 and 2011, 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 and 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).

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, with a balloon payment of approximately $42.1 million due in 2021. The interest rate is fixed at 5.87%. Debt service will be reduced by $580,000 annually for the last five years. 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 in connection with this Loan or, in some cases the full amount of the Loan.

In accordance with the loan agreement, LHI is required to establish four separate escrow accounts. There are four escrow accounts, which are for: (1) Department of Buildings – LHI had a citation from NYC and LHI was required to set aside money until the citation is remedied; (2) Replacement – These are funds that can be used for any capital additions made to the building; (3) Tenant Improvement – These are monies set aside that can be used for lessee space improvements; and (4) Insurance – This fund is used for insurance purposes. The total funds held for the year ended December 31 was $399,906 and $147,447 for 2012 and 2011 respectively.

The Loan also requires the Lighthouse and the LLC to comply with certain affirmative and negative covenants. At December 31, 2012 and 2011, the Lighthouse was 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,	
2013	$ -
2014	-
2015	-
2016	209,599
2017	541,594
Thereafter	44,248,807
Total principal	$ 45,000,000

11. ALLOCATION OF JOINT COSTS

For the years ended December 31, 2012 and 2011, the Lighthouse incurred joint costs of $1,147,304 and $1,320,401, respectively, for programmatic information materials and activities that also included fund-raising appeals. Of these amounts, the Lighthouse allocated $930,433 and $954,879 to fundraising expense and $216,871 and $365,522 to program expenses, respectively.

12. GOVERNMENT GRANTS AND CONTRACTS

Government grants and contracts consisted of the following for the years ended December 31, 2012 and 2011:

	2012	**2011**
Research grants	$ 134,791	$ 221,763
Direct services contracts	2,546,981	2,337,579
Fees for educational services	2,937,235	3,406,404
	$ 5,619,007	$ 5,965,746

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, administrative functions 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. For the years ended December 31, 2012 and 2011 no additions were made to the Lighthouse master lease under this provision.

Third Party Leases

The Lighthouse is a party to various non-cancelable 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,	
2013	$ 118,736
2014	119,371
2015	120,018
2016	25,534
2017	-
	$ 383,659

Rent expense totaled $243,494 and $781,210 for the years ended December 31, 2012 and 2011, respectively, and is included within occupancy on the accompanying consolidated statements of functional expenses with utilities, equipment usage fees and other leasing activities.

Future minimum rental income receivable expected under these leases follows:

Year ending December 31,	
2013	$ 2,159,211
2014	2,218,564
2015	2,029,539
2016	1,970,925
2017	773,947

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 that provides certain legal services which approximate market value. Legal fees paid to this firm were approximately $9,000 and $6,000 for fiscal years ended December 31, 2012 and 2011, respectively.

SUPPLEMENTARY INFORMATION

LIGHTHOUSE INTERNATIONAL AND AFFILIATE
Schedule of Functional Expenses Information
For the years ended December 31, 2012 and 2011

	2012	2011
Program services:		
Child Development Center	$ 4,254,737	$ 4,524,402
Rehabilitation and youth services	2,118,784	2,121,458
Low vision services	2,418,138	2,266,951
Early intervention services	1,541,565	1,750,660
Career academic and technology	1,229,327	1,121,690
Volunteers and reading services	1,056,972	1,085,639
Consumer products	999,499	1,007,874
Social services	657,251	638,184
Outreach	305,773	238,504
Research	440,226	432,483
Music School	1,694,904	1,950,476
Professional education	288,287	443,676
Policy and advocacy	466,955	809,466
Public information	1,459,230	2,133,817
Total program services	18,931,648	20,525,280
Supporting services:		
Fundraising	3,959,330	3,653,008
Administrative and general	2,290,465	2,459,302
Total supporting services	6,249,795	6,112,310
Facility rental and conference center	5,104,971	3,787,101
Total expenses	$ 30,286,414	$ 30,424,691

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