



LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Financial Statements and Schedules

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Lighthouse Guild International, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of Lighthouse Guild International, Inc. and Affiliates, which comprise the consolidated balance sheets as of December 31, 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the year 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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of Lighthouse Guild International, Inc. and Affiliates as of December 31, 2015, the results of their operations, and the changes in their net assets and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

The accompanying financial statements of Lighthouse Guild International, Inc. and Affiliates as of December 31, 2014 and for the year then ended were audited by other auditors whose report thereon dated March 24, 2015, expressed an unmodified opinion on those financial statements.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information contained in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

March 31, 2016

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Balance Sheets

December 31, 2015 and 2014

(In thousands)

Assets	2015	2014
Current assets:		
Cash	\$ 18,383	14,836
Investments (note 3)	408,789	350,419
Accounts receivable (net of allowance for doubtful accounts of \$3,835 in 2015 and \$1,710 in 2014)	8,354	8,302
Due from third-party payors, net (note 10)	65,895	9,770
Contributions, grants, and legacies receivable (note 4)	576	1,504
Prepaid expenses and other current assets	1,738	1,921
Total current assets	503,735	386,752
Assets limited or restricted as to use:		
Statutory reserve (notes 3 and 13)	40,813	35,276
Funds held by trustee (note 6)	—	743
Endowment investments (notes 3 and 9)	21,766	21,766
Beneficial interest in perpetual trusts (notes 3 and 16)	10,350	10,807
Total assets limited or restricted as to use	72,929	68,592
Intangible asset (note 2)	16,290	—
Fixed assets – net (note 5)	21,244	43,960
Other assets:		
Contributions and legacies receivable (net of allowance of \$350 in 2015 and \$700 in 2014) (note 4)	677	646
Deferred financing costs	—	350
Beneficial interest in irrevocable trusts (note 16)	7,599	6,409
Total other assets	8,276	7,405
Total assets	\$ 622,474	506,709
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,865	7,465
Accrued claims payable (note 21)	132,685	103,728
Premium deficiency reserve (note 2)	18,673	—
Accrued salaries and related expenses	7,080	5,793
Current portion of accrued pension and postretirement medical benefits (notes 11 and 12)	156	1,910
Current portion of payable to establish The Guild Institute for Vision and Aging and The Guild Research Center (note 19)	—	2,500
Current portion of capital lease payable (note 7)	257	183
Due to third-party payors, net (note 10)	447	9,948
Other current liabilities	143	599
Current portion of annuity obligations (note 17)	745	712
Total current liabilities	168,051	132,838
Long-term liabilities:		
Capital lease payable, net of current portion (note 7)	267	332
Payable to establish The Guild Institute for Vision and Aging and The Guild Research Center, net of current portion (note 19)	—	160
Mortgage loan payable (note 6)	—	45,000
Annuity obligations, net of current portion (note 17)	2,945	2,923
Accrued pension and postretirement medical benefits, net of current portion (notes 11 and 12)	29,683	22,619
Total long-term liabilities	32,895	71,034
Total liabilities	200,946	203,872
Net assets:		
Unrestricted	370,611	252,242
Temporarily restricted (notes 8, 16, and 17)	18,801	18,022
Permanently restricted (notes 9 and 16)	32,116	32,573
Total net assets	421,528	302,837
Commitments and contingencies (notes 10 and 15)		
Total liabilities and net assets	\$ 622,474	506,709

See accompanying notes to consolidated financial statements.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2015 and 2014

(In thousands)

	2015			2014				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and other support from operations:								
Program revenue (note 2)	\$ 959,202	—	—	959,202	835,373	—	—	835,373
Patient service revenue (net of contractual allowances)	12,540	—	—	12,540	13,158	—	—	13,158
Provision for bad debts (note 2)	(221)	—	—	(221)	(133)	—	—	(133)
Rentals, grants and other revenue (net of rental expenses of \$3,037 in 2015 and \$5,869 in 2014) (note 23)	475	56	—	531	584	—	—	584
Sale of consumer products (net of cost of goods sold of \$329 in 2015 and \$498 in 2014)	418	—	—	418	420	—	—	420
Total revenue and other support from operations	972,414	56	—	972,470	849,402	—	—	849,402
Operating expenses (includes interest of \$1,727 in 2015 and \$2,700 in 2014):								
Program services:								
Managed care	907,198	—	—	907,198	778,859	—	—	778,859
Adult day healthcare	10,884	—	—	10,884	10,912	—	—	10,912
Clinical and rehabilitation	8,077	—	—	8,077	9,115	—	—	9,115
Behavioral health	6,644	—	—	6,644	6,226	—	—	6,226
Education	8,264	—	—	8,264	8,657	—	—	8,657
Other programs	1,891	—	—	1,891	3,149	—	—	3,149
Total program services	942,958	—	—	942,958	816,918	—	—	816,918
Supporting services:								
Management and general	64,058	—	—	64,058	60,102	—	—	60,102
Fund-raising	3,759	—	—	3,759	3,812	—	—	3,812
Total supporting services	67,817	—	—	67,817	63,914	—	—	63,914
Total operating expenses	1,010,775	—	—	1,010,775	880,832	—	—	880,832
Gain (loss) from operations before gain on sale/disposal of fixed assets	(38,361)	56	—	(38,305)	(31,430)	—	—	(31,430)
Gain on sale/disposal of fixed assets (note 23)	149,168	—	—	149,168	—	—	—	—
Gain (loss) from operations	110,807	56	—	110,863	(31,430)	—	—	(31,430)
Nonoperating revenue, gains, and losses:								
Contributions and grants (including in-kind of \$35 in 2015 and \$49 in 2014)	2,610	687	—	3,297	1,433	1,536	893	3,862
Special events (net of direct cost of special events of \$460 in 2015 and \$1,058 in 2014)	1,908	—	—	1,908	1,823	—	—	1,823
Legacies and bequests	4,212	2,697	—	6,909	2,412	10	—	2,422
Interest and dividend income (net of investment expenses of \$1,547 in 2015 and \$1,472 in 2014)	6,280	416	—	6,696	5,260	326	1	5,587
Net realized and unrealized gains (losses) on investments	(9,067)	(601)	—	(9,668)	8,809	1,066	5	9,880
Distributions from perpetual trusts	481	20	—	501	403	55	—	458
Change in value of annuity obligations (note 17)	(537)	—	—	(537)	(454)	—	—	(454)
Change in value of beneficial interest in trusts (note 17)	—	1,334	(457)	877	—	1,291	(151)	1,140
Other	—	—	—	—	(19)	—	—	(19)
Extinguishment of contribution payable (note 19)	2,660	—	—	2,660	—	—	—	—
Net assets released from restrictions (note 8)	3,830	(3,830)	—	—	3,877	(3,877)	—	—
Total nonoperating revenue, gains, and losses, net	12,377	723	(457)	12,643	23,544	407	748	24,699
Excess of revenue, gains, and losses over expenses before other changes	123,184	779	(457)	123,506	(7,886)	407	748	(6,731)
Other changes:								
Pension and postretirement benefit changes other than net periodic benefit cost (notes 11 and 12)	(4,815)	—	—	(4,815)	(10,565)	—	—	(10,565)
Prior years' IBNR adjustments	—	—	—	—	7,336	—	—	7,336
Reclassification	—	—	—	—	—	157	(157)	—
Change in net assets	118,369	779	(457)	118,691	(11,115)	564	591	(9,960)
Net assets, beginning of year	252,242	18,022	32,573	302,837	263,357	17,458	31,982	312,797
Net assets, end of year	\$ 370,611	18,801	32,116	421,528	252,242	18,022	32,573	302,837

See accompanying notes to consolidated financial statements.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

(In thousands)

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 118,691	(9,960)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Contributions restricted for annuity agreements	(430)	(29)
Contributions restricted for long-term investments	—	(1,179)
Interest, dividends, and gains restricted for long-term investment	—	(6)
Depreciation and amortization	5,536	5,091
Amortization of deferred financing costs	29	54
Provision for bad debts	2,125	129
Pension and postretirement benefit changes other than net periodic benefit cost	4,815	10,565
Net realized and unrealized (gain) loss on investments	9,668	(9,880)
(Gain) loss on sale/disposal of fixed assets	(149,168)	19
Extinguishment of contribution payable	(2,660)	—
Change in value of annuity obligations	537	454
Change in value of beneficial interest in irrevocable trusts	(1,334)	(1,291)
Change in value of beneficial interest in perpetual trusts	457	151
Changes in operating assets and liabilities:		
Accounts receivable	(2,177)	572
Due from third-party payors	(56,125)	12,087
Contributions, grants, and legacies receivable	897	1,254
Prepaid expenses and other current assets	(197)	890
Prepaid pension costs	—	1,361
Funds held by trustee	743	(178)
Beneficial interest in irrevocable trusts	144	—
Accounts payable and accrued expenses	147	(2,039)
Accrued claims payable	28,957	(5,275)
Premium deficiency reserve	18,673	—
Accrued salaries and related expenses	1,287	462
Accrued pension and postretirement medical benefits	495	(1,974)
Due to third-party payors	(9,501)	3,450
Other current liabilities	(456)	(239)
Net cash (used in) provided by operating activities	(28,847)	4,489
Cash flows from investing activities:		
Acquisition of fixed assets	(1,730)	(6,009)
Proceeds from sale of fixed assets	168,866	—
Proceeds from sales of investments	230,565	164,835
Proceeds from sales of assets limited or restricted as to use	62,482	—
Purchases of investments	(298,474)	(159,951)
Purchases of assets limited or restricted as to use	(68,148)	(9,927)
Proceeds from note receivable	380	380
Purchase of intangible asset	(16,290)	—
Net cash provided by (used in) investing activities	77,651	(10,672)
Cash flows from financing activities:		
Interest, dividends and gains restricted for reinvestment	—	6
Proceeds from contributions restricted for annuity obligations	672	65
Proceeds from contributions restricted for investment in endowment	—	349
Payments on capital leases	(205)	(177)
Payments of annuity obligations	(724)	(744)
Payment of mortgage loan	(45,000)	—
Net cash used in financing activities	(45,257)	(501)
Net increase (decrease) in cash	3,547	(6,684)
Cash, beginning of year	14,836	21,520
Cash, end of year	\$ 18,383	14,836
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 1,666	2,700
Capital lease obligation incurred	214	—
Fixed assets accrued in accounts payable	253	—

See accompanying notes to consolidated financial statements.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial

December 31, 2015 and 2014

(In thousands)

(1) Nature of Organization

The accompanying financial statements include the financial position, results of operations, changes in net assets, and cash flows of Lighthouse Guild International, Inc., which includes The Jewish Guild for the Blind and Affiliates d/b/a Jewish Guild Healthcare and Affiliates, and Lighthouse International and Affiliate (the Lighthouse) (collectively, LGI).

The Guild and the Lighthouse entered into a Membership Change Agreement on November 8, 2013, pursuant to which the Guild and the Lighthouse established a corporate affiliation with a common parent, Lighthouse Guild International, Inc. The closing of the affiliation transaction occurred on December 23, 2013.

Lighthouse Guild International, Inc. (LGI) was incorporated on November 7, 2013 to improve the operational effectiveness of The Jewish Guild for the Blind d/b/a Jewish Guild Healthcare and Affiliates and Lighthouse International and Affiliate by providing administrative and consulting services as well as funding to promote the good health and well-being of visually impaired and other persons in need.

LGI Services, LLC, the sole member of which is The Jewish Guild for the Blind d/b/a Jewish Guild Healthcare and LGI Programs, LLC, the sole member of which is Lighthouse Guild International, Inc. were both formed to advance and support the charitable, educational, and scientific purposes of The Jewish Guild for the Blind d/b/a Jewish Guild Healthcare, Lighthouse International, and Lighthouse Guild International, Inc. They are considered disregarded entities for federal income tax purposes.

The Jewish Guild Healthcare affiliates include: J.G.B. Health Facilities Corporation, J.G.B. Rehabilitation Corporation, J.G.B. Education Services, GuildNet, Inc., Greater Boston Guild for the Blind, Greater Boston Diabetes Society, Inc., J.G.B. Mental Health and Mental Retardation Services, Inc., and National Association of Parents of Children with Visual Impairments, Inc. (collectively, the Guild).

The Jewish Guild for the Blind d/b/a Jewish Guild Healthcare (JGB) was incorporated on October 23, 1916 and provides services to visually impaired persons. In 2012, the organization filed a certificate of assumed name in order to do business as Jewish Guild Healthcare. The organization's primary sources of revenue are grants and contributions from the general public.

J.G.B. Health Facilities Corporation (H.F.C.) was incorporated on September 18, 1979 and operates adult day healthcare programs in New York City, Buffalo, Albany, Niagara Falls, and Yonkers. In March 2016, H.F.C. closed the Yonkers site. H.F.C.'s sources of revenue are reimbursements from Medicaid and other third-party payors.

J.G.B. Rehabilitation Corporation (Rehab) was incorporated on June 23, 1987 and operates a diagnostic and treatment clinic. Rehab also operates an optical dispensary. The primary sources of revenue are reimbursements from Medicaid, Medicare, other third-party payors, and clients.

J.G.B. Education Services (ED) was granted a charter on July 27, 1990 and provides functional, academic, sensory motor, and prevocational training for visually impaired children with additional disabilities. The primary sources of revenue are program fees charged to third-party payors.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial

December 31, 2015 and 2014

(In thousands)

GuildNet, Inc. (GuildNet) operates three health plans covering all medical and healthcare needs, especially for persons who are blind and visually impaired:

- Partially Capitated Medicaid Managed Long-Term Care (MLTCP) – for people who are 18 or older and eligible for Medicaid and who have long term healthcare needs.
- Medicaid Advantage Plus/Medicare Advantage Special Needs Plan (MAP) – for people 18 or older, who have both Medicare and Medicaid and have long term healthcare needs.
- Fully Integrated Dual Advantage Plan (FIDA) Demonstration Project – for people 21 or older, who have both Medicare and Medicaid and have long term healthcare needs. FIDA offers additional services compared to MAP.

The primary sources of revenue are premium capitation payments received from Medicaid and Medicare.

Greater Boston Guild for the Blind, Inc. (GBGB) provides programs and materials designed to provide blind and visually impaired people with help and support that will enhance their physical, emotional, and intellectual functioning. GBGB's primary sources of funding are contributions and grants.

Greater Boston Diabetes Society, Inc. (GBDS) is an affiliate of GBGB. GBDS is a nonprofit organization established to educate and improve the well-being of persons affected by diabetes. GBDS ceased operations in 2014 and dissolved on July 27, 2015.

J.G.B. Mental Health and Mental Retardation Services, Inc. (MHS) was incorporated on April 22, 2004. MHS commenced operations July 1, 2004 and operates a mental health clinic and day treatment programs for individuals with vision loss. In 2016, MHS announced its intention to close one of its day treatment programs. MHS's primary sources of revenue are reimbursement for services rendered from Medicaid, Medicare, and private insurance companies.

Effective March 1, 2013, The Jewish Guild for the Blind became the controlling member of National Association of Parents of Children with Visual Impairments, Inc. (NAPVI). NAPVI is a nonprofit membership organization whose purpose is to provide support to parents and families of visually impaired children. NAPVI's primary sources of revenue are contributions, grants, and membership fees.

The Lighthouse, founded in 1905, 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 primary sources of revenue are government and foundation grants.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial

December 31, 2015 and 2014

(In thousands)

Effective June 24, 2011, the Lighthouse became the sole member of Lighthouse International Real Estate Holdings, LLC (the LLC), a Delaware limited liability company. The purpose of the LLC was to fulfill the terms of its mortgage loan agreement whereby the Lighthouse contributed its entire interest in the property 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 held the building and improvements and conducted the leasing activities of the Property. The primary source of revenue was rental income from tenants. The LLC is considered a disregarded entity for federal income tax purposes and, as such, is covered under the Lighthouse's exemption. The Property was sold in July 2015. See note 23.

LGI and all of its affiliates are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and have been classified as organizations that are not private foundations under Section 509(a).

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The financial statements are prepared on the accrual basis of accounting.

(b) *Basis of Consolidation*

All material intercompany balances and transactions have been eliminated in the consolidation.

(c) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) *Reclassification*

Certain prior-year balances have been reclassified to conform to the current year's presentation.

(e) *Investments*

Investments are recorded at fair value with interest and dividend income and net realized and unrealized gains and losses recognized in nonoperating revenue, gains, and losses. LGI invests in various securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect LGI's financial statements.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial

December 31, 2015 and 2014

(In thousands)

(f) *Fair Value Measurements*

Accounting Standards Codification (ASC) 820, *Fair Value Measurement* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that LGI has the ability to access.
- Level 2 – Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability; and
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 – Valuation methodologies included inputs that are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015, as compared to those used at December 31, 2014.

Cash and cash equivalents, money market mutual funds, mutual funds, exchange traded funds, and equity securities – Valued at the closing price reported on the active market on which the individual securities are traded.

U.S. Government securities, U.S. corporate bonds, municipal bonds, and International corporate bonds – Valued based on prices obtained from independent pricing service.

Beneficial interest in perpetual trusts – Valued using the fair values of the underlying assets held by the trusts.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial

December 31, 2015 and 2014

(In thousands)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while LGI believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

See note 3 for the table, which sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2015 and 2014.

Alternative investments – As a practical expedient to fair value, alternative investments are measured at their net asset value (NAV) or equivalent provided by the fund manager. The value is reviewed and evaluated by management. The reported value may differ significantly from the values that would have been used had a ready market for these investments exist.

(g) *Accounts Receivable and Allowance for Doubtful Accounts*

LGI records receivables based on established rates or contracts for service provided. Bad debt is recorded if a receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year-end.

(h) *Contributions Receivable and Allowance for Doubtful Accounts*

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Contributions receivable are reported net of allowances for doubtful accounts. Factors used to determine whether an allowance for doubtful accounts should be recorded include the age of the receivable and a review of payments subsequent to year-end.

(i) *Assets Limited or Restricted as to Use*

Assets limited or restricted as to use include the escrow deposit required for the New York State statutory reserve requirement as detailed in note 13, funds held by trustee in escrow in accordance with the terms of the loan (note 6), endowment investments and beneficial interest in perpetual trusts.

(j) *Fixed Assets*

Fixed assets are stated at cost. Capital acquisitions and leasehold improvements in excess of \$1 and all computer equipment, which have an estimated useful life of greater than one year are subject to capitalization. Depreciation and amortization of fixed assets are provided on the straight-line method over their estimated useful lives. Amortization of leasehold improvements is provided on the straight-line method over the shorter of the lease term or the life of the asset.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial

December 31, 2015 and 2014

(In thousands)

(k) *Impairment of Assets*

LGI reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such impairment indicators are present, LGI recognizes a loss on the basis of whether these amounts are fully recoverable. There have not been any impairments for the years ended December 31, 2015 and 2014.

(l) *Intangible Asset*

Intangible asset represents the purchase of customer relationships from another health plan and is recorded at cost. In December 2015, GuildNet paid \$16,290 of which 20% or \$3,258 was placed in an escrow account until GuildNet and the seller reconcile the final number of customer relationships purchased. The effective date of the customer relationships is January 1, 2016 and the intangible asset will be amortized over the estimated life of the customer relationships.

(m) *Due to/from Third-Party Payors*

Due to/from third-party payors represents amounts due to/from the New York State Department of Health (NYSDOH), Centers for Medicare and Medicaid Services (CMS), and New York City Department of Education for retroactive rate adjustments, quality incentive payments, Health Care Workforce Recruitment, Training and Retention (RT&R) funds, premium capitation payments received for disenrolled members, and the NYSDOH's Independent Office of Medicaid Inspector General (OMIG) settlement. See note 10.

(n) *Accrued Claims Payable*

Unpaid claims and unpaid claims adjustment expenses include reported claims and claims incurred but not yet reported (IBNR) to GuildNet. The estimated expense of processing these claims is included in accounts payable and accrued expenses. The liabilities are estimated based upon assumptions and estimates developed from prior claims experience. Although there is variability in such estimates, management believes that the unpaid claims and unpaid claims adjustment expense liabilities are adequate. The estimates are continually reviewed and adjusted as experience develops or new information becomes known.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial

December 31, 2015 and 2014

(In thousands)

(o) *Accrued Premium Deficiency*

U.S. GAAP requires losses under prepaid healthcare services contracts to be recognized when it is probable that expected future healthcare costs and maintenance costs under a group of existing contracts will exceed anticipated future premiums and stop-loss insurance recoveries on those contracts. At December 31, 2015, GuildNet has estimated that losses will be incurred for its MLTCP and MAP programs through the terms of the applicable contracts. As a result, GuildNet has recorded a premium deficiency accrual of \$18,673 in the accompanying balance sheet at December 31, 2015. Estimates are continually monitored and reviewed and, as estimates are adjusted, the resulting differences are reflected in current operations within managed care expenses in the statements of operations and changes in net assets. Due to the uncertainties inherent in the estimation process for the accrued premium deficiency and New York State and CMS' ability to change rates on a retroactive basis, these estimates may change by a material amount in the near term. Management believes that the methods employed to estimate accrued premium deficiency are reasonable at December 31, 2015.

(p) *Annuity Obligations*

Charitable gift annuity obligations are recorded at the actuarial present value of future payments.

(q) *Net Assets*

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those funds restricted by donors, to be used for a specified time period or purpose. Permanently restricted funds are to be maintained in perpetuity at the behest of the donor and the income generated by such funds is utilized for operating purposes except if otherwise indicated by the donor.

(r) *Program and Patient Service Revenues*

Program and patient service revenue include premium capitation payments, outpatient fees, fee-for-service reimbursements, and tuition fees that are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the programs and services provided are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and exclusion from the Medicare and Medicaid programs. Program revenue include premium capitation payments of \$950,626 and \$826,020 for the years ended December 31, 2015 and 2014. Patient service revenues net of contractual allowances and discounts include third-party payors of \$12,467 and \$13,138 and self-pay of \$73 and \$20 for the years ended December 31, 2015 and 2014.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

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(In thousands)

(s) ***Functional Allocation of Expenses***

The majority of expenses are directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses have been allocated among program and supporting services on the basis of square footage of office space occupied, time reports, and other bases determined by the management of LGI.

(t) ***Leases***

Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Capital leases are recorded at the lower of the fair market value of the assets or the present value of the minimum lease payments and are amortized over the lease term or estimated useful life of the assets, whichever is shorter, unless the lease provides for transfer of title or includes a bargain purchase option, in which case the lease is amortized over the estimated useful life of the asset. Operating lease payments are charged to rent expense. Rent expense is recorded on the straight-line basis. Deferred rent is recorded where there are material differences between the fixed payment and the rent expense.

(u) ***Measure of Operations***

LGI includes in its definition of operations all revenue and expenses associated with its program services. Excluded from operations are contributions and grants, special events, legacies and bequests, investment income, distributions from perpetual trusts, change in value of annuity obligations, change in value of beneficial interest in trusts, extinguishment of contribution payable, pension and postretirement medical benefits adjustments, and net assets released from restrictions.

(v) ***Contributions and Grants***

Unconditional promises to give cash and other assets are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

(w) ***In-Kind Contributions and Expenses***

In-kind contributions and expenses are for professional service fees and rentals, which are reported at fair value at the date the contributions are received.

(x) ***Grants***

Grants are recorded at the contracted rate when the requirements of the grants are met. Revenues from government agencies are subject to audit by those agencies. No provision for disallowance is reflected in the financial statements as management does not anticipate any material adjustments.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

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(In thousands)

(y) *Deferred Financing Costs*

Deferred financing costs were amortized over the term of the mortgage loan, which was 10 years. Accumulated amortization of deferred financing costs totaled \$189 at December 31, 2014. Deferred financing costs of \$321 were written off in 2015 at the time of the sale of the Property.

(z) *Advertising costs*

Advertising costs are expensed as incurred. LGI incurred advertising costs of \$2,438 and \$1,799 in 2015 and 2014, respectively, which are included in management and general expense.

(aa) *Income Taxes*

U.S. GAAP requires LGI to evaluate tax positions taken or expected to be taken to determine whether the tax positions are “more likely than not” of being sustained by the applicable tax authority based upon the technical merits of the position. LGI recognizes the effect of tax positions only if they are more likely than not of being sustained. Periods ending December 31, 2012 or June 30, 2012, as applicable, and subsequent remain subject to examination by applicable taxing authorities.

(bb) *Recently Adopted Accounting Standards*

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07 (Update No. 2015-07), *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. LGI elected to early adopt the provisions of Update No. 2015-07 for the year ended December 31, 2015 and applied the guidance retrospectively. The adoption of ASU 2015-07 did not have an impact on LGI’s statement of financial position, statement of operations and changes in net assets, or statement of cash flows.

(cc) *Subsequent Events*

Subsequent events have been evaluated through March 31, 2016, which is the date the financial statements were available to be issued. See note 24.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

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(In thousands)

(3) Investments and Assets Limited or Restricted as to Use

	2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments, including endowments:				
Cash and cash equivalents	\$ 13,493	13,493	—	—
Money market mutual funds	53,255	53,255	—	—
Certificate of deposit	70	70	—	—
Equity securities:				
Emerging markets	22	22	—	—
International	4,864	4,864	—	—
Real estate and infrastructure	221	221	—	—
U.S. large cap	33,031	33,031	—	—
U.S. small/mid cap	1,139	1,139	—	—
Total equity securities	<u>39,277</u>	<u>39,277</u>	<u>—</u>	<u>—</u>
Mutual funds:				
Fixed income	60,417	60,417	—	—
U.S. all cap equity	21,181	21,181	—	—
U.S. large cap equity	7,972	7,972	—	—
U.S. small/mid cap equity	877	877	—	—
International equity	47,318	47,318	—	—
Emerging markets equity	7,927	7,927	—	—
Balanced/asset allocation	281	281	—	—
Total mutual funds	<u>145,973</u>	<u>145,973</u>	<u>—</u>	<u>—</u>
Exchange traded funds:				
Fixed income	26,094	26,094	—	—
U.S. large cap equity	45,318	45,318	—	—
U.S. small/mid cap equity	897	897	—	—
International equity	16,111	16,111	—	—
Total exchange traded funds	<u>88,420</u>	<u>88,420</u>	<u>—</u>	<u>—</u>

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

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(In thousands)

	2014			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
Fixed income	\$ 32,680	32,680	—	—
U.S. large cap equity	9,049	9,049	—	—
U.S. small/mid cap equity	911	911	—	—
International equity	42,798	42,798	—	—
Emerging markets equity	10,718	10,718	—	—
Real assets	12,947	12,947	—	—
Balanced/asset allocation	231	231	—	—
Total mutual funds	<u>109,334</u>	<u>109,334</u>	<u>—</u>	<u>—</u>
Exchange traded funds:				
Fixed income	22,904	22,904	—	—
U.S. large cap equity	38,455	38,455	—	—
Emerging markets equity	10,635	10,635	—	—
International equity	5,528	5,528	—	—
Total exchange-traded funds	<u>77,522</u>	<u>77,522</u>	<u>—</u>	<u>—</u>
Fixed income:				
Corporate bonds	128	—	128	—
Municipal bonds	389	—	389	—
U.S. government obligations	522	—	522	—
International bonds	2	—	2	—
Total fixed income	<u>1,041</u>	<u>—</u>	<u>1,041</u>	<u>—</u>
Total investments measured at fair value	307,347	<u>306,306</u>	<u>1,041</u>	<u>—</u>
Alternative investments measured at net asset value (or equivalent)	\$ <u>64,838</u>			
Total investments, including endowments	\$ <u>372,185</u>			
Assets limited as to use:				
Money market funds	\$ 35,276	35,276	—	—
Beneficial interest in perpetual trusts	10,807	—	—	10,807
	\$ <u>46,083</u>	<u>35,276</u>	<u>—</u>	<u>10,807</u>

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

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(In thousands)

Changes in Level 3 Investments

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended December 31, 2015 and 2014:

	2015	2014
Beneficial interest in perpetual trust:		
Beginning balance	\$ 10,807	10,414
Total realized and unrealized gains or losses included in changes in net assets	(457)	(151)
Contributions	—	544
Ending balance	\$ 10,350	10,807
The amount of total losses for the period attributable to the change in unrealized losses relating to assets held at the reporting date	\$ (457)	(151)

Alternative Investments

	2015			
	Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity hedge (a)	\$ 3,913	—	Quarterly/Annually	0–60 days
U.S. small/mid cap hedged (a)	26,050	—	Quarterly	60 days
International equity (b)	1,248	—	Monthly	30 days
Multistrategy (c)	35,224	—	Monthly/Quarterly/ Semiannually/ Annually/Biennially	0–92 days
Private equity (d)	2,665	1,319	N/A	N/A
U.S. small/mid cap equity (e)	19,572	—	Monthly	15 days
Emerging markets (f)	560	—	Monthly	10 days
Total funds	\$ 89,232	1,319		

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		2014			
		Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity hedge (a)	\$	3,677	—	Quarterly	0–60 days
U.S. small/mid cap hedged (a)		10,583	—	Quarterly	60 days
International equity (b)		1,310	—	Monthly	30 days
Multistrategy (c)		30,904	—	Monthly/Quarterly Semiannually/ Annually/Biennially	0–92 days
Private equity (d)		1,910	1,199	N/A	N/A
U.S. small/mid cap equity (e)		16,454	—	Monthly	15 days
Total funds	\$	64,838	1,199		

- a. *Equity hedge, U.S. small/mid cap hedged* – Hedged equity investments are focused on managers that have the ability to purchase companies long as well as sell short. The primary role of these investments is to complement the traditional equity investments by providing access to a growth-oriented return stream with a reduced dependence on upwardly trending equity markets and lower volatility. Small/mid cap investing is typically focused on companies with market capitalization of less than \$5 billion.
- b. *International equity* – International equity investments are focused on the largest and most successful components in developed and developing markets.
- c. *Multistrategy* – Investments are typically focused in credit, market neutral, global macro, and arbitrage strategies. In combination, these strategies are designed to produce a consistent return stream with volatility modestly higher than a diversified core, high-quality, fixed-income portfolio. Multistrategy funds would therefore be utilized primarily as a complement to the traditional fixed-income allocation.
- d. *Private equity* – Private equity consists of investments directly into private companies, or buyouts of public companies that result in a delisting of public equity. Other strategies involve investing in the secondary markets and coinvesting into private companies. Private equity is not quoted on a public exchange and is illiquid in nature.
- e. *U.S. small/mid cap equity* – Equity in U.S.-based companies whose market capitalization is generally \$500 million and greater and typically less than \$7 billion.
- f. *Emerging markets* – Long and short investments in emerging market multicapitalization equities. Emerging market economies are defined as economies that are progressing towards becoming advanced.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

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(In thousands)

(4) Contributions, Grants, and Legacies Receivable

Contributions, grants, and legacies receivable are expected to be collected as follows:

	2015	2014
Due within one year	\$ 576	1,504
Due in one to five years	1,037	1,372
	1,613	2,876
Less allowance for doubtful accounts	(350)	(700)
Discount to present value (at rates ranging from 1.64% to 2.20%)	(10)	(26)
Total contributions receivable, net	\$ 1,253	2,150

(5) Fixed Assets

	2015	2014	Estimated useful lives
Land	\$ 1,162	1,572	
Buildings and improvements	43,167	89,688	5–50 years
Furniture and equipment	13,978	23,149	3–15 years
Leasehold improvements	8,003	5,915	1–10 years
Computer software	4,384	4,718	3–15 years
Projects in progress	416	2,252	
	71,110	127,294	
Less accumulated depreciation and amortization	(49,866)	(83,334)	
	\$ 21,244	43,960	

Land, buildings and improvements, and furniture and equipment were sold or disposed of as part of the sale of the Property (note 23).

Cost to complete – Included in projects in progress are costs associated with the relocation to the new space. The estimated cost to complete is \$50,000. See note 24.

Leased equipment of \$1,123 and \$909 at December 31, 2015 and 2014, respectively, is included in furniture and equipment. Associated accumulated amortization thereon totaled \$613 and \$409 at December 31, 2015 and 2014, respectively.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

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(In thousands)

(6) Mortgage Loan Payable

The LLC entered into a \$45,000 mortgage loan agreement (Loan) with Ladder Capital Finance LLC on June 27, 2011. Simultaneously, the Lighthouse entered into a Guarantor Agreement with the lender and, in August 2011, the loan was securitized. The term of the Loan was 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 was fixed at 5.87%. Payment of the Loan was secured by, among other collateral, a first mortgage against the land, building, and improvements of the Property. The LLC was fully obligated to pay when due all amounts extended under the Loan. The Loan was without recourse to both Lighthouse International 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 (collectively, the Recourse Obligations). On December 23, 2013 (Consent Date), Lighthouse International, Lighthouse International Real Estate Holdings, LLC, and Lighthouse Guild International, Inc., GuildNet, Inc., The Jewish Guild for the Blind d/b/a Jewish Guild Healthcare (together, the Added Indemnitor pursuant to the Consent Agreement) and the holder of the Loan entered into an affirmation and consent (Consent Agreement) by which, among other things, the Added Indemnitor agreed to be jointly and severally liable for all Recourse Obligations arising after the Consent Date. In July 2015, the loan was paid in full in connection with the sale of the Property. See note 23.

The Guild has lines of credit of \$35,000 bearing interest at 0.90% above the LIBOR 30-day rate. The lines expired in August 2015 and were renewed through and expired in January 2016. There is no outstanding balance as of December 31, 2015. Borrowing up to \$25,000 is secured by the Guild's investment portfolio.

(7) Capital Lease Payable

Effective 2012, the Guild entered into a five-year capital lease agreement with interest at a rate of 3%. In 2015, the Guild entered into an additional three-year capital lease with interest at a rate of 4.37%. The future lease payments are as follows:

	Amount
Fiscal year ending December 31:	
2016	\$ 271
2017	223
2018	51
	545
Less amount representing interest	(21)
Present value of net minimum lease payments	524
Less current portion	(257)
Long-term obligation under capital lease	\$ 267

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

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(In thousands)

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2015</u>	<u>2014</u>
Scholarships	\$ 6,632	6,950
Various projects	483	1,413
Grunwald Technology Center	14	117
Purchase of equipment	72	91
Educational services	89	277
Low vision services	100	112
Research	2,499	45
Time	8,912	9,017
	<u>\$ 18,801</u>	<u>18,022</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2015</u>	<u>2014</u>
Bressler fund projects	\$ 19	175
Scholarships	327	295
Various projects	1,285	1,053
Grunwald Technology Center	153	266
Center for Vision Care	—	230
Educational services	323	400
Research	35	40
Purchase of equipment	19	14
Low vision services	131	48
Time restriction expired	1,538	1,356
Total net assets released from restriction	<u>\$ 3,830</u>	<u>3,877</u>

(9) Permanently Restricted Net Assets

(a) General

LGI's endowments consist of individual donor-restricted endowment funds established to support activities of the organization. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

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(b) *Interpretation of Relevant Law – New York*

As of September 17, 2010, New York State adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the “historic dollar value” standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The NYPMIFA spending policy defines typical prudent management to include a standard maximum prudent spending limit of 7% of the average of its previous five years’ balance. As a result, LGI 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 (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

(c) *Interpretation of Relevant Law – Massachusetts*

The State of Massachusetts adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on July 2, 2009, effective June 30, 2009. The Board of Directors of GBGB has interpreted UPMIFA as requiring preservation of the fair value of a gift as of the gift date of donor-restricted endowment funds (historic dollar value), absent explicit donor stipulations to the contrary. As a result, and in accordance with the direction of the original donor gift instruments, GBGB classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of any subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

(d) *Return Objectives, Strategies Employed and Spending Policy*

The Guild maintains the principal of endowment funds at the original amount designated by donors while generating income for the specified programs. The investment policy is designed to achieve this objective. Investment earnings in relation to the endowment funds are recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

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(In thousands)

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 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.

The Board approved spending rate for the years ended December 31, 2015 and 2014 was up to 7%, not to exceed actual or accumulated earnings.

(e) ***Funds with Deficiencies***

LGI does not have any funds with deficiencies.

(f) ***Permanently Restricted Net Asset Composition by Type of Fund as of December 31, 2015 and 2014***

Permanently restricted net assets consist of the following:

	2015	2014
Endowments:		
Income which is expendable to support activities of the organization	\$ 21,572	21,572
Income to be added to original gift	194	194
Total endowments	21,766	21,766
Beneficial interest in perpetual trusts:		
Income which is expendable to support activities of the Guild and Lighthouse	10,350	10,807
Total permanently restricted net assets	\$ 32,116	32,573

(g) ***Changes in Endowment Net Assets for the Year Ended December 31, 2015***

	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 2,466	21,766	24,232
Interest and dividends	325	—	325
Realized and unrealized gain	(543)	—	(543)
Appropriation of endowment assets for expenditure	(1,277)	—	(1,277)
Endowment net assets, end of year	\$ 971	21,766	22,737

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(In thousands)

(h) Changes in Endowment Net Assets for the Year Ended December 31, 2014

	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 2,336	21,568	23,904
Contributions	—	349	349
Interest and dividends	261	1	262
Realized and unrealized gain	835	5	840
Reclassification	157	(157)	—
Appropriation of endowment assets for expenditure	(1,123)	—	(1,123)
Endowment net assets, end of year	\$ <u>2,466</u>	<u>21,766</u>	<u>24,232</u>

(10) Due to/from Third-Party Payors and Other Contingencies

LGI is responsible for reporting to various governmental agencies including CMS, NYSDOH, the New York State Department of Financial Services (NYSDFS), New York State Office of Mental Health (NYSOMH), New York State Office for People With Developmental Disabilities (OPWDD), New York State Education Department (NYSED), and New York City Department of Education (NYCDOE). These agencies, as well as the New York State Office of Attorney General’s Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General’s Charities Bureau, the New York State Department of Taxation and Finance, the Office of Inspector General (OIG) and the New York State OMIG and other agencies have the right to audit LGI. These agencies have the right to audit fiscal, as well as programmatic compliance, e.g., clinical documentation, among other compliance requirements.

(a) Managed Long-Term Care Plan

Effective July 1, 2012 through March 31 2015, NYSDOH established three premium capitation categories for managed long-term care including.

1. Nonmandatory, risk-adjusted premium capitation
2. Mandatory premium capitation for nursing facility eligible members
3. Mandatory premium capitation for nonnursing facility eligible members

Effective April 1, 2014, NYSDOH created a blended rate for the two mandatory premium capitation categories. Effective April 1, 2015, NYSDOH created a blended rate for all premium capitation categories.

As of December 31, 2014, NYSDOH had issued final rates through March 31, 2014 and draft rates through December 31, 2014. These premium rates were the basis for revenue recognition in 2014.

As of December 31, 2015, NYSDOH issued final rates through March 31, 2015 and draft rates through September 30, 2015. These premium rates are the basis for revenue recognition in 2015. A due from

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(In thousands)

third-party payor of approximately \$10,317 is recorded at December 31, 2015 and was received in 2016 for 2015 rate adjustments based on the draft rates.

(b) *Quality Incentive Payments*

NYSDOH provides quality incentive payments for managed long-term care plans that meet certain quality indicators. The quality incentive measures and plan-specific results for the period April 1, 2013 through March 31, 2014 were announced in early 2014 and were included in the rates recognized for 2013 and 2014 revenue.

For the period April 1, 2014 through March 31, 2015, NYSDOH established a quality pool, which was distributed to plans based on certain quality indicators. GuildNet's share of the pool was approximately \$17,100 and is included in premium capitation revenue for the year ended December 31, 2015. \$8,550 of this amount is included in due from third-party payors at December 31, 2015 and was received in January 2016.

For the period April 1, 2015 through December 31, 2015, NYSDOH established a quality pool, which will be distributed to plans based on certain quality indicators. 2015 premium capitation revenue includes an estimate of approximately \$12,433 for quality incentive payments for this period which is included in premium capitation revenue for the year ended December 31, 2015 and due from third-party payors at December 31, 2015.

(c) *High Need/High Cost Payments*

For the period April 1, 2014 through March 31, 2015, NYSDOH reduced managed long-term care premiums by 2% to create a high need/high cost pool. NYSDOH distributed this pool to plans that had a high proportion of members needing live-in or twenty-four hours of personal care services relative to the regional average. In 2014, NYSDOH provided a partial high need/high cost premium add back, which was included in 2014 premium capitation revenue. In 2015 NYSDOH adjusted the high need/high cost premium add back for the period April 1, 2014 through March 31, 2015 based on its final distribution model. The adjustments for 2014 of approximately \$10,000 are recorded in premium capitation revenue in 2015 and due from third-party payors at December 31, 2015 and were received in January 2016. Effective April 1, 2015, there is no longer a high need/high cost pool.

(d) *Medicaid Advantage Plus/Medicare Advantage Special Needs Plan*

In 2015, NYSDOH issued final Medicaid premium capitation rates for fiscal years 2012 and 2013. The impact of these rates resulted in an adjustment of approximately \$5,400, which is included in premium capitation revenue in 2015 and due from third-party payors at December 31, 2015 and was received in January 2016.

2015 premium capitation revenue is recognized based on the latest final Medicaid rate issued by NYSDOH. A due from third-party payor of approximately \$3,166 is recorded at December 31, 2015 and received in 2016 for 2015 rate adjustments based on the latest rate issued.

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The CMS Hierarchical Condition Category (CMS-HCC) reimbursement model uses demographic data, prior-year diagnostic data, a frailty factor, Medicaid eligibility status and community or institutional status to develop a “risk score” for each enrollee. For 2015, the risk-adjusted portion of the Medicare premiums was based on data from physician and acute care (inpatient and outpatient) Medicare claims with 2014 service dates. In 2016, CMS will retroactively adjust the risk-adjusted portion of the 2015 premiums to reflect more recent 2014 Medicare claims data. The impact of this Medicare update cannot be determined at this time. For 2014, the risk-adjusted portion of the Medicare premiums was based on data from physician and acute care (inpatient and outpatient) Medicare claims filed during 2014 for 2013 service dates. In 2015, GuildNet received approximately \$601 from CMS based on updated risk scores for fiscal year 2014.

In February 2015, GuildNet received a final report on the examination of GuildNet’s 2012 financial activity associated with its Medicare Advantage (MA) and Prescription Drug Program. Based on this report, no adjustment is necessary.

(e) ***Fully Integrated Dual Advantage***

NYSDOH issued final rates for the period January 1, 2015 through March 31, 2015 and draft rates effective April 1, 2015. Revenue is recognized based on the rates issued to date and a due from third-party payor of approximately \$7,822 is recorded at December 31, 2015.

(f) ***Medicare Part D***

GuildNet’s MAP and FIDA Plans include Medicare Part D (Part D) prescription drug insurance coverage. Certain elements of the payments received during the year represented payments for the insurance risk coverage under Part D, and are recognized as premium capitation revenue. The payments received from CMS are subject to risk corridor and federal reinsurance adjustments whereby variances, which exceed certain thresholds from a target amount result in CMS making additional payments. GuildNet estimated and recorded a receivable/(liability) related to these risk corridors and federal reinsurance provisions in the amount of \$(149) in 2015 and \$640 in 2014 for the MAP Plan and \$284 in 2015 for the FIDA Plan. An estimated low-income member cost sharing subsidy (LICS) receivable (liability) has been recorded in the amount of \$(203) in 2015 and \$(180) in 2014 for the MAP Plan and \$109 in 2015 for the FIDA Plan. The LICS receivable (liability) is equal to the sum of plan-reported actual LICS dollars less the sum of all prospective LICS subsidy payments received.

(g) ***All Plans***

Recruitment, Training, and Retention

NYSDOH increased Medicaid rates for the period June 1, 2006 through March 31, 2014 to provide funding for RT&R of home health aides and/or other personnel with direct patient care responsibility. The methodology employed to make this determination was based on the approach approved by NYSDOH under a similar program implemented in 2002. This methodology and supporting documentation are subject to audit by third parties. Approximately \$4,200 of RT&R for the period April 1, 2013 through March 31, 2014 funds are included in premium capitation revenue for the year ended December 31, 2015. RT&R funds have been authorized for the period April 1, 2014 through

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December 31, 2015 but have not been distributed by NYSDOH. GuildNet is eligible to receive RT&R funding for this period and has accrued an estimate of approximately \$8,159, which is included in premium capitation revenue for the year ended December 31, 2015 and due from third-party payors at December 31, 2015.

Ambulatory Patient Groups

Ambulatory Patient Groups (APGs) is a patient classification system designed to characterize the amount and type of resources used in an ambulatory care visit for patients with similar clinical characteristics. Rehab's Article 28 Diagnostic and Treatment Center and MHS's free-standing Article 31 Mental Health Clinic are reimbursed based on this methodology.

GuildNet OMIG Audits

Beginning January 2014, OMIG conducted a review of enrollments and care management for a select sample of GuildNet enrollees. GuildNet has entered into an agreement with OMIG to repay approximately \$1,033, which has been recorded as due to third-party payors at December 31, 2015. GuildNet anticipates receiving and signing a stipulation of settlement memorializing the settlement amount in 2016.

Litigation

LGI is subject to various legal proceedings and claims that arise in the ordinary course of business. However, based upon available information, management believes that ultimately they will not have a material adverse impact on the financial position.

(11) Pension Plans

(a) *Defined-Benefit Plans*

LGI has three defined-benefit pension plans; The Jewish Guild for the Blind Bargaining Unit Employees' Pension Plan (Bargaining), The Jewish Guild for the Blind Non-Bargaining Unit Employees' Pension Plan (Non-Bargaining) and Retirement Plan for Employees of Lighthouse International (Lighthouse Retirement Plan). No contributions are required from employees. Each plan covers all of its eligible employees and were frozen as of June 30, 2011, 2010 and 2007, respectively.

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The following table sets forth the plan' funded status under U.S. GAAP and amounts recognized in the balance sheet as of and for the year ended December 31, 2015:

	<u>Bargaining</u>	<u>Non- Bargaining</u>	<u>Lighthouse Retirement Plan</u>
Projected benefit obligation	\$ (25,079)	(27,971)	(49,292)
Plan assets at fair value	16,793	25,207	32,604
Funded status	<u>\$ (8,286)</u>	<u>(2,764)</u>	<u>(16,688)</u>
Amounts recognized in the balance sheet:			
Long term liability	\$ (8,286)	(2,764)	(16,688)
Pension cost (benefit)	\$ 1,317	868	(388)
Employer contributions	—	—	1,474
Benefits paid	1,518	2,470	2,931
	<u>Bargaining</u>	<u>Non- Bargaining</u>	<u>Lighthouse Retirement Plan</u>
Amounts recognized in other changes in unrestricted net assets:			
Net actuarial loss	\$ (509)	(2,020)	(5,941)
Impact of settlements	358	500	—
Amortization of net actuarial loss	834	627	73
	<u>\$ 683</u>	<u>(893)</u>	<u>(5,868)</u>
Amounts recognized in accumulated unrestricted net assets:			
Actuarial loss	\$ (9,906)	(8,744)	(11,142)

Settlement calculations have been made under FASB ASC Subtopic 715-30 for the Bargaining and Non-Bargaining plans as a result of the total lump sum benefits paid during 2015 exceeding the sum of the 2015 interest cost and service cost. Included in 2015 pension cost were settlements of \$472 for the Bargaining Plan and \$643 for the Non-Bargaining Plan.

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The net actuarial loss for the plans that will be amortized from accumulated change in unrestricted net assets into net periodic pension cost in 2016 are as follows:

	<u>Bargaining</u>	<u>Non-Bargaining</u>	<u>Lighthouse Retirement Plan</u>
\$	(985)	(825)	(274)
		<u>Bargaining</u>	<u>Non-Bargaining</u>
		<u>Bargaining</u>	<u>Lighthouse Retirement Plan</u>
Weighted average assumptions used for net pension cost:			
Discount rate		3.75%	3.75%
Expected return on plan assets		6.00%	6.00%
Rate of compensation increase		N/A	N/A
Discount rate used to calculate the effect of plan settlement as of June 30, 2015		3.95%	3.80%
Weighted average assumptions used for pension obligations:			
Discount rate		3.90%	3.80%
Expected return on plan assets		N/A	N/A
Rate of compensation increase		N/A	N/A

The following table sets forth the plans' funded status under U.S. GAAP and amounts recognized in the balance sheet as of and for the year ended December 31, 2014:

	<u>Bargaining</u>	<u>Non-Bargaining</u>	<u>Lighthouse Retirement Plan</u>
Projected benefit obligation	\$ (26,068)	(28,651)	(48,015)
Plan assets at fair value	18,415	27,648	35,333
Funded status	\$ <u>(7,653)</u>	<u>(1,003)</u>	<u>(12,682)</u>
Amounts recognized in the balance sheet:			
Current liability	\$ —	—	(1,716)
Long term liability	<u>(7,653)</u>	<u>(1,003)</u>	<u>(10,966)</u>
	\$ <u>(7,653)</u>	<u>(1,003)</u>	<u>(12,682)</u>

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	<u>Bargaining</u>	<u>Non- Bargaining</u>	<u>Lighthouse Retirement Plan</u>
Pension cost (benefit)	\$ 492	431	(493)
Employer contributions	—	—	1,138
Benefits paid	1,339	2,146	2,866
Amounts recognized in other changes in unrestricted net assets:			
Net actuarial loss	\$ (3,515)	(2,664)	(5,274)
Impact of settlements	—	359	—
Amortization of net actuarial loss	475	372	—
	<u>\$ (3,040)</u>	<u>(1,933)</u>	<u>(5,274)</u>
Amounts recognized in accumulated in unrestricted net assets:			
Actuarial loss	\$ (10,590)	(7,851)	(5,274)

Settlement calculations have been made under FASB ASC Subtopic 715-30 for the Non-Bargaining plan as a result of the total lump sum benefits paid during the 2014 exceeding the sum of the 2014 interest cost and service cost. Included in 2014 pension cost were settlements of \$481 for the Non-Bargaining Plan.

	<u>Bargaining</u>	<u>Non- Bargaining</u>	<u>Lighthouse Retirement Plan</u>
Weighted average assumptions used for net pension cost:			
Discount rate	4.75%	4.75%	4.82%
Expected return on plan assets	6.25%	6.25%	7.50%
Rate of compensation increase	N/A	N/A	N/A
Discount rate used to calculate the effect of plan settlement as of June 30, 2014	N/A	4.00%	N/A
Weighted average assumptions used for pension obligations:			
Discount rate	3.75%	3.75%	3.75%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A

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The following tables present the defined-benefit plans' assets at December 31, including the level in the fair value hierarchy for assets measured at fair value on a recurring basis:

	Bargaining			
	2015		2014	
	Total	Level 1	Total	Level 1
Assets:				
Investments:				
Cash and cash equivalents	\$ 1,012	1,012	1,092	1,092
Equity securities:				
Consumer discretionary	\$ 39	39	42	42
Consumer staples	38	38	36	36
Energy	29	29	37	37
Financials	40	40	27	27
Healthcare	157	157	168	168
Industrials	53	53	66	66
Information technology	232	232	231	231
Materials	32	32	31	31
Total equity securities	<u>620</u>	<u>620</u>	<u>638</u>	<u>638</u>
Exchange-traded funds:				
Fixed income	6,024	6,024	6,141	6,141
International equity	400	400	307	307
U.S. large cap equity	685	685	692	692
Total exchange-traded funds	<u>7,109</u>	<u>7,109</u>	<u>7,140</u>	<u>7,140</u>
Mutual funds:				
Fixed income	2,126	2,126	3,636	3,636
Emerging markets equity	270	270	346	346
International equity	1,210	1,210	1,380	1,380
Total mutual funds	<u>3,606</u>	<u>3,606</u>	<u>5,362</u>	<u>5,362</u>
Total investments measured at fair value	12,347	<u>12,347</u>	14,232	<u>14,232</u>
Alternative investments measured at net asset value (or equivalent)	4,456		4,178	
Net accrued income and expenses	<u>(10)</u>		<u>5</u>	
Total	<u>\$ 16,793</u>		<u>18,415</u>	

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		Non-Bargaining			
		2015		2014	
		Total	Level 1	Total	Level 1
Assets:					
Investments:					
Cash and cash equivalents	\$	1,559	1,559	1,469	1,469
Equity securities:					
Consumer discretionary		91	91	93	93
Consumer staples		88	88	83	83
Energy		68	68	86	86
Financials		92	92	62	62
Healthcare		371	371	398	398
Industrials		123	123	153	153
Information technology		536	536	541	541
Materials		73	73	70	70
Total equity securities		1,442	1,442	1,486	1,486
Exchange-traded funds:					
Fixed income		10,619	10,619	10,827	10,827
International equity		400	400	307	307
Total exchange-traded funds		11,019	11,019	11,134	11,134
Mutual funds:					
Fixed income		3,397	3,397	5,905	5,905
International equity		1,418	1,418	1,596	1,596
Total mutual funds		4,815	4,815	7,501	7,501
Total investments measured at fair value		18,835	18,835	21,590	21,590
Alternative investments measured at net asset value (or equivalent)		6,380		6,048	
Net accrued income and expenses		(8)		10	
Total	\$	25,207		27,648	

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		2015		
		Lighthouse Retirement Plan		
		Total	Level 1	Level 2
Assets:				
Investments:				
Equity securities	\$	2	2	—
Common collective trust		30,883	—	30,883
Total investments measured at fair value		30,885	2	30,883
Alternative investments measured at net asset value (or equivalent)		127		
Net accrued income and expenses		1,592		
Total		\$ 32,604		
		2014		
		Lighthouse Retirement Plan		
		Total	Level 1	Level 2
Assets:				
Investments:				
Equity securities	\$	2	2	—
Common collective trust		35,177	—	35,177
Total investments measured at fair value		35,179	2	35,177
Alternative investments measured at net asset value (or equivalent)		154		
Total investments		\$ 35,333		

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Alternative Investments

		2015				
		Bargaining	Non-Bargaining	Lighthouse Retirement Plan	Redemption Frequency	Redemption Notice Period
Multistrategy (a)	\$	2,473	4,549	—	Semi-annually Quarterly	90 days
U.S. small/mid cap equity hedged (b)		1,967	1,806	127	Quarterly	0–60 days
Private equity (c)		16	25	—	N/A	N/A
Total	\$	<u>4,456</u>	<u>6,380</u>	<u>127</u>		
		2014				
		Bargaining	Non-Bargaining	Lighthouse Retirement Plan	Redemption Frequency	Redemption Notice Period
Multistrategy (a)	\$	2,406	4,411	—	Semi-annually Quarterly	90 days
U.S. small/mid cap equity hedged (b)		1,759	1,616	154	Quarterly	0–60 days
Private equity (c)		13	21	—	N/A	N/A
Total	\$	<u>4,178</u>	<u>6,048</u>	<u>154</u>		

There are no unfunded commitments as of December 31, 2015 and 2014.

- a. *Multi-strategy* – Investments are typically focused in credit, market neutral, global macro, and arbitrage strategies. In combination, these strategies are designed to produce a consistent return stream with volatility modestly higher than a diversified core, high-quality, fixed-income portfolio. Multistrategy funds would therefore be utilized as a complement to the traditional fixed-income allocation.
- b. *U.S. small/mid cap equity hedged* – Hedged equity investments are focused on managers that have the ability to purchase companies long as well as sell short. The primary role of these investments is to complement the traditional equity investments by providing access to a growth-oriented return stream with a reduced dependence on upwardly trending equity markets and lower volatility. Small/mid cap investing is typically focused on companies with market capitalization of less than \$5 billion.
- c. *Private equity* – Private equity consists of investments directly into private companies, or buyouts of public companies that result in a delisting of public equity. Other strategies involve investing in the secondary markets and coinvesting into private companies. Private equity is not quoted on a public exchange and is illiquid in nature.

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The Guild's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. The Guild formulates its investment portfolio at the discretion of the investment committee in conjunction with actuaries and investment advisors, taking into account long-term expectations for future returns, investment strategy, and cash demands on the plans. Amounts are compared to historical averages for reasonableness.

The Lighthouse's investment policies are designed to improve the plan's funded status and to mitigate funded status volatility. The Lighthouse sets target allocations of assets at the discretion of the investment committee in conjunction investment advisors to achieve this goal. Amounts are compared to benchmarks of the funds in the portfolio for reasonableness.

Cash Flows

Contribution

The Guild's pension plans are on a June 30 fiscal year end. The Guild does not anticipate making contributions in 2016. The Lighthouse Retirement Plan is on a December 31 fiscal year end. The required contribution to the plan in 2016 is \$909.

Estimated Future Benefit Payments

Benefit payments are expected to be paid as follows:

	<u>Bargaining</u>	<u>Non- Bargaining</u>	<u>Lighthouse Retirement Plan</u>
Fiscal year ending December 31:			
2016	\$ 2,381	4,451	3,094
2017	1,874	2,085	3,085
2018	1,892	1,747	3,101
2019	1,859	1,892	3,115
2020	1,645	1,923	3,138
Thereafter	7,780	7,661	15,632

(b) Defined Contribution Plans

LGI Services, LLC has a 403(b) plan, a defined-contribution plan, for all eligible employees. The expense for the years ended December 31, 2015 and 2014 was \$3,661 and \$3,545, respectively.

The Lighthouse had a 401(k) defined-contribution plan for its eligible employees. Effective 2014, all eligible employees participate in the LGI Services, LLC 403(b) plan and contributions are no longer made to the 401(k) plan. The plan was terminated in 2015.

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(12) Postretirement Medical Benefit Plans

The Guild has noncontributory postretirement medical benefit plans for Non-Bargaining Unit employees hired prior to November 1994 and Bargaining Unit employees who are members of 1199 SEIU United Healthcare Workers East. The following table sets forth the two plans' combined unfunded status and amounts recognized in the balance sheets as of December 31, 2015 and 2014:

	2015	2014
Benefit obligation	\$ (2,101)	(3,191)
Fair value of plan assets	—	—
Funded status	\$ (2,101)	(3,191)
Amounts recognized in the balance sheet:		
Current liability	\$ (156)	(194)
Long-term liability	(1,945)	(2,997)
	\$ (2,101)	(3,191)
Benefit cost	\$ 319	250
Employer contribution	147	155
Benefits paid	149	155
Amounts recognized in other changes in unrestricted net assets:		
Net actuarial gain (loss)	\$ 1,221	(334)
Amortization of transition obligation	34	34
Amortization of net actuarial (gain) loss	8	(18)
	\$ 1,263	(318)
Amounts recognized in accumulated unrestricted net assets:		
Transition obligation	\$ (103)	(137)
Actuarial gain	1,337	108
	\$ 1,234	(29)

The net actuarial gain and transition obligation that will be amortized from unrestricted net assets into net periodic benefit cost in 2016 are \$92 and \$(34), respectively.

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Weighted average assumptions as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Discount rate:		
Used for benefit obligation – Bargaining Plan	4.35%	3.75%
Used for benefit obligation – Non-Bargaining Plan	3.70	3.75
Used for net benefit cost	3.75	4.75
Healthcare cost trend assumed for next year	6.90	6.10

The healthcare cost trend rate was assumed to change annually until the ultimate rate of 4.4% is reached in 2089.

The healthcare cost trend rate assumption has a significant effect on the amounts reported. To illustrate: increasing or decreasing the assumed healthcare cost trend by 1% in each year would increase (decrease) the accumulated postretirement benefit obligation and the aggregate of the service and interest cost components of net periodic postretirement benefit cost as of December 31, 2015 and 2014 as follows:

	<u>Accumulated postretirement benefit obligation</u>		<u>Service cost plus interest cost</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
At trend + 1%	\$ 38	42	2	2
At trend – 1%	(35)	(39)	(1)	(2)

The expected contribution in 2016 is \$159.

Benefit payments expected to be paid are as follows:

2016	\$ 159
2017	152
2018	149
2019	143
2020	137
2020–2024	670

(13) Statutory Reserve

Under the laws of the State of New York, GuildNet is required to maintain a total statutory reserve equal to the greater of its escrow deposit or its contingent reserve. The escrow deposit calculation is 5% based on unaudited management projections of medical expenses for the subsequent year. The contingent reserve is calculated as 5% of premium revenue for MLTCP and MAP and 5.75% for FIDA for the current year.

NYSDFS requires the escrow deposit to be invested in accordance with Section 1404(a) of the New York Insurance Law. In March 2016, GuildNet deposited \$10,082 to satisfy the 2015 estimated escrow deposit

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requirement of \$50,894. In March 2015, GuildNet deposited \$5,630 to satisfy the 2014 estimated escrow deposit requirement of \$40,906.

The statutory reserve for 2015 and 2014 was calculated as follows:

Escrow Deposit

	<u>2015</u>	<u>2014</u>
2016 and 2015 total projected medical expenses (unaudited), respectively	\$ 1,017,884	818,123
	5%	x 5%
	<u>\$ 50,894</u>	<u>40,906</u>

Contingent Reserve

	<u>2015</u>	<u>2014</u>
MLTCP and MAP:		
2015 total premium revenue	\$ 894,595	826,020
	x 5%	x 5%
	44,730	41,301
FIDA:		
2015 total premium revenue	56,031	
	x 5.75%	
	3,222	
Total contingent reserve	<u>\$ 47,952</u>	<u>41,301</u>

The contingent reserve may be offset by the escrow deposit. The differential between the total statutory reserve calculation and the escrow deposit calculation is the contingent reserve. The statutory reserve is segregated as follows:

	<u>2015</u>	<u>2014</u>
Escrow deposit	\$ 50,894	40,906
Contingent reserve	—	395
	<u>\$ 50,894</u>	<u>41,301</u>

(14) Fair Value of Financial Instruments

The carrying amounts of financial instruments as reported in LGI's financial statements, including accounts receivable, due to/from third-party payors, and accounts payable and accrued expenses, approximate their fair value.

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(15) Lease Commitments

GuildNet and H.F.C. rent space at various locations. Rent expense is recorded based on the terms of the various lease agreements. Rent expense, including in-kind rent, was \$3,305 and \$2,594 for 2015 and 2014, respectively.

The following are the future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year.

2016	\$	2,287
2017		2,240
2018		2,087
2019		710
2020		521
Thereafter		3,122
Total lease commitments	\$	<u>10,967</u>

(16) Beneficial Interest in Trusts

The Guild, Lighthouse, and GBGB have irrevocable remainder interests in various trust agreements established by donors. The assets are under the control of third-party trustees who act as a fiduciary of the assets and, upon the death of the annuitants or income beneficiaries, distribute the assets to LGI and other named beneficiaries. Using the age of the surviving beneficiaries, actuarial life expectancy tables, the assets in the trusts and conservative investment return and discount rate assumptions ranging from 2.0%–5.8%, LGI determined the present value of its future irrevocable interest in these trusts to be \$7,599 and \$6,409 at December 31, 2015 and 2014, respectively.

The Guild and Lighthouse are income beneficiaries of various trust funds held in perpetuity by others. As a result, the Guild and Lighthouse have recorded assets based upon their respective percentage interest in the fair value of the underlying assets of the trusts, 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 statement of operations and changes in net assets. The present value of the trust funds as of December 31, 2015 and 2014 is \$10,350 and \$10,807, respectively.

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(17) Split-Interest Agreements

The Guild and Lighthouse have numerous split-interest agreements, which include various charitable gift annuities and beneficial interests in trusts (note 16). The interest rates used to determine the discount ranges from 2.0% to 7.25%. As of December 31, 2015 and 2014, the statements of operations and changes in net assets and the balance sheets include the various split-interest agreements at fair market value as follows:

	2015	
	Charitable gift annuities – unrestricted	Trusts – temporarily restricted
Statements of operations and changes in net assets:		
Change in value of annuity obligations	\$ (537)	—
Actuarial gain on beneficial interest in trusts	—	1,334
Balance sheets:		
Investments	5,554	—
Beneficial interest in irrevocable trusts	—	7,599
Annuity obligations	3,690	—
	2014	
	Charitable gift annuities – unrestricted	Trusts – temporarily restricted
Statements of operations and changes in net assets:		
Change in value of annuity obligations	\$ (454)	—
Actuarial gain on beneficial interest in trusts	—	1,291
Balance sheets:		
Investments	5,690	—
Beneficial interest in irrevocable trusts	—	6,409
Annuity obligations	3,635	—

(18) Concentrations

LGI grants credit without collateral to its patients, most of whom are local residents and are insured under third-party-payor agreements. The mix of gross receivables and revenues from third-party payors as of and for the years ended December 31, 2015 and 2014 is as follows:

	2015		2014	
	Receivables	Revenue	Receivables	Revenue
Medicaid	72%	94%	68%	95%
Medicare	1	4	2	2
Other third-party payors	27	2	30	3

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LGI's cash accounts are in several financial institutions and at times they exceed the FDIC insurance limits.

Approximately, 64% of LGI's employees are union employees who are covered under the terms of two collective bargaining agreements. One of the collective bargaining agreements expires in 2016 and represents approximately 23% of LGI's employees.

(19) Payable to Establish The Institute for Vision and Aging and The Guild Research Center

On November 28, 2007, the Guild made commitments to the Fund for the Aged, Inc. totaling \$6,000. The commitments specified that the Guild would pay \$4,000 to establish The Guild Institute for Vision and Aging located within Jewish Home Lifecare, Harry and Jeanette Weinberg Campus, Bronx. In addition, the Guild would pay \$1,000 to the Fund for the Aged, Inc. or its affiliate to establish The Guild Research Center. The Guild would also provide funding for the Research Center in the amount of \$100 each year for ten years commencing January 1, 2008. In July 2015, the parties executed an agreement to terminate their affiliation. The termination agreement released all parties from all obligations owed under the original agreements. The Guild recognized an extinguishment of contribution payable of \$2,660, which is included in nonoperating revenue, gains, and losses.

(20) Related-Party Transactions

GuildNet contracted with a home care provider whose former shareholder is related to GuildNet's president. The shareholder's interest was sold in November 2015. Payments paid to the provider in 2015 were \$1,496, through November 2015, and \$1,900 in 2014.

(21) Accrued Claims Payable

GuildNet engaged the services of an actuarial consultant to value its reported but not paid and Incurred But Not Reported (IBNR) liability as of December 31, 2015 and 2014, respectively. GuildNet furnished a listing to the actuarial consultant of all claims paid by GuildNet by date of service through December 2015 and 2014. The consultant, utilizing actuarial standards of practice and actuarial compliance guidelines as promulgated by the Actuarial Standards Board, has computed their best estimate of the ultimate cost of possible IBNR claims.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial

December 31, 2015 and 2014

(In thousands)

The following table shows the components of the change in total accrued claims payable for the year ending December 31, 2015:

	2015	2014
Accrued claims payable, beginning of period	\$ 103,728	109,003
Incurred related to:		
Current year	851,737	743,771
Prior year	(1,134)	(7,336)
Total incurred	850,603	736,435
Paid related to:		
Current year	(720,365)	(642,326)
Prior year	(101,281)	(99,384)
Total paid	(821,646)	(741,710)
Accrued claims payable, end of period	\$ 132,685	103,728

Reserves for unpaid claims attributable to prior year incurred claims decreased by \$1,134 and \$7,336 in 2015 and 2014, respectively. The decrease is generally the result of ongoing analysis of recent loss development trends.

(22) Reinsurance

GuildNet has an excess loss reinsurance agreement for its MAP and FIDA Plans. This agreement provides reinsurance for hospital inpatient acute and subacute care expenses. The annual deductible per member is \$200 and \$150 as of December 31, 2015 and 2014, respectively, with a maximum payable of \$2,000 and \$1,250 as of December 31, 2015 and 2014, respectively.

(23) Rental Income and Sale of Property

The Guild leases space under a cancelable and noncancelable lease. The cancelable lease expired in October 2015 and was extended on a month-to-month basis. The noncancelable lease expires in February 2024 and future annual rental income is approximately \$163. Rental income for the years ended December 31, 2015 and 2014 was \$1,349 and \$1,436, respectively.

GBGB had a noncancelable lease/sale agreement for its property in Boston whereby the lessee had a lease for the property through June 30, 2015 and was required to purchase it thereafter. The lessee exercised their option to purchase the property before that date and the closing of the sale occurred in March 2015. Proceeds from the sale were \$1,258, carrying amount of fixed assets was \$1,097, and a gain on sale of \$161 was recognized for the year ended December 31, 2015. Rental income for the years ended December 31, 2015 and 2014 was \$14 and \$87, respectively.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial

December 31, 2015 and 2014

(In thousands)

Lighthouse International Real Estate Holdings, LLC rented space in the 59th street property to tenants through the date of the sale of the building in July 2015. Net proceeds from the sale were \$167,608, carrying amount of fixed assets was \$18,597, and a gain on sale of \$149,011 was recognized for the year ended December 31, 2015 (note 6). Rental income for the years ended December 31, 2015 and 2014 was \$1,245 and \$2,290, respectively.

(24) Subsequent Events

In February 2016, JGB entered into a contractual agreement for the sale of its building for \$157,000. The sale is contingent upon approvals by the State Attorney General. LGI also entered into a contractual agreement for space in New York City which is subject to regulatory approvals. The estimated cost to renovate the space is \$50,000 and will be financed by a 5-year loan.

In February 2016, LGI signed a 10-year lease agreement for additional space in New York City. Future annual payments are approximately \$2,200 to \$2,400 with additional operating expense escalations.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidating Balance Sheet

December 31, 2015

(In thousands)

Assets	Lighthouse Guild International, Inc.	Jewish Guild Healthcare & Affiliate	Lighthouse International & Affiliate	GuildNet, Inc.	J.G.B. Health Facilities Corporation	J.G.B. Rehabilitation Corporation	J.G.B. Education Services	J.G.B. Mental Health & Mental Retardation Services, Inc.	National Association of Parents of Children with Visual Impairments, Inc.	Greater Boston Guild for the Blind, Inc. & Affiliate	Eliminations	2015 Total
Current assets:												
Cash	\$ 2,057	1,902	1,050	12,689	231	124	75	86	32	137	—	18,383
Investments	—	246,066	25,090	137,335	—	—	—	—	—	298	—	408,789
Accounts receivable (net of allowance for bad debts of \$3,835)	—	275	554	5,303	1,155	263	253	551	—	—	—	8,354
Due from third-party payors, net	—	—	—	65,895	—	—	—	—	—	—	—	65,895
Contributions, grants, and legacies receivable	51	—	525	—	—	—	—	—	—	—	—	576
Prepaid expenses and other current assets	447	552	56	555	81	47	—	—	—	—	—	1,738
Total current assets	2,555	248,795	27,275	221,777	1,467	434	328	637	32	435	—	503,735
Assets limited or restricted as to use:												
Statutory reserve	—	—	—	40,813	—	—	—	—	—	—	—	40,813
Endowment investments	—	8,317	13,318	—	—	—	—	—	—	131	—	21,766
Beneficial interest in perpetual trusts	—	508	9,842	—	—	—	—	—	—	—	—	10,350
Total assets limited or restricted as to use	—	8,825	23,160	40,813	—	—	—	—	—	131	—	72,929
Intangible asset												
Fixed assets – net	3,025	13,703	38	16,290	64	109	14	46	1	—	—	16,290
21,244				4,244	64	109	14	46	1	—	—	21,244
Other assets:												
Contributions and legacies receivable (net of allowances and reserves of \$350)	—	—	677	—	—	—	—	—	—	—	—	677
Beneficial interest in irrevocable trusts	—	397	6,681	—	—	—	—	—	—	521	—	7,599
Total other assets	—	397	7,358	—	—	—	—	—	—	521	—	8,276
Total assets	\$ 5,580	271,720	57,831	283,124	1,531	543	342	683	33	1,087	—	622,474
Liabilities and Net Assets												
Current liabilities:												
Accounts payable and accrued expenses	\$ 1,510	918	1,139	3,827	334	36	3	92	6	—	—	7,865
Accrued claims payable	—	—	—	132,685	—	—	—	—	—	—	—	132,685
Premium deficiency reserve	—	—	—	18,673	—	—	—	—	—	—	—	18,673
Accrued salaries and related expenses	150	6,690	240	—	—	—	—	—	—	—	—	7,080
Current portion of accrued pension and postretirement medical benefits	—	156	—	—	—	—	—	—	—	—	—	156
Current portion of capital lease payable	—	257	—	—	—	—	—	—	—	—	—	257
Due to third-party payors, net	—	15	12	166	96	8	16	134	—	—	—	447
Other current liabilities	—	70	72	—	—	—	—	—	1	—	—	143
Current portion of annuity obligations	—	233	512	—	—	—	—	—	—	—	—	745
Total current liabilities	1,660	8,339	1,975	155,351	430	44	19	226	7	—	—	168,051
Long-term liabilities:												
Capital lease payable, net of current portion	—	267	—	—	—	—	—	—	—	—	—	267
Annuity obligations, net of current portion	—	1,090	1,855	—	—	—	—	—	—	—	—	2,945
Accrued pension and postretirement medical benefits, net of current portion	—	12,995	16,688	—	—	—	—	—	—	—	—	29,683
Total long-term liabilities	—	14,352	18,543	—	—	—	—	—	—	—	—	32,895
Due to (from) affiliates	15,107	102,300	(119,868)	3,151	39,324	24,511	23,781	23,110	1,105	3,007	(115,528)	—
Total liabilities	16,767	124,991	(99,350)	158,502	39,754	24,555	23,800	23,336	1,112	3,007	(115,528)	200,946
Net assets (deficit)	(11,187)	146,729	157,181	124,622	(38,223)	(24,012)	(23,458)	(22,653)	(1,079)	(1,920)	115,528	421,528
Total liabilities and net assets	\$ 5,580	271,720	57,831	283,124	1,531	543	342	683	33	1,087	—	622,474

See accompanying independent auditors' report.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets

December 31, 2015

(In thousands)

	Lighthouse Guild International, Inc.	Jewish Guild Healthcare & Affiliate	Lighthouse International & Affiliate	GuildNet, Inc.	J.G.B. Health Facilities Corporation	J.G.B. Rehabilitation Corporation	J.G.B. Education Services	J.G.B. Mental Health & Mental Retardation Services, Inc.	National Association of Parents of Children with Visual Impairments, Inc.	Greater Boston Guild for the Blind, Inc. & Affiliate	Eliminations	2015 Total
Revenue and other support from operations:												
Management fees	\$ —	76,933	—	—	—	—	—	—	—	—	(76,933)	—
Program revenue	—	1,051	4,534	950,626	—	—	2,991	—	—	—	—	959,202
Patient service revenue (net of contractual allowances)	—	—	—	—	9,837	1,426	—	4,331	—	—	(3,054)	12,540
Provision for bad debts	—	—	—	—	(172)	(49)	—	—	—	—	—	(221)
Rentals, grants, and other revenue (net of rental expenses of \$3,037)	105	812	(347)	73	250	63	56	94	—	112	(687)	531
Sale of consumer products (net of cost of goods sold of \$329)	—	—	69	—	—	349	—	—	—	—	—	418
Total revenue and other support from operations	105	78,796	4,256	950,699	9,915	1,789	3,047	4,425	—	112	(80,674)	972,470
Operating expenses (includes interest of \$1,727):												
Program services:												
Managed care	—	67,818	—	915,729	—	—	—	—	—	—	(76,349)	907,198
Adult day healthcare	—	—	—	—	10,884	—	—	—	—	—	—	10,884
Clinical and rehabilitation	—	2,246	2,450	—	—	3,381	—	—	—	—	—	8,077
Behavioral health	—	—	—	—	—	—	—	6,644	—	—	—	6,644
Education	—	—	4,629	—	—	—	3,635	—	—	—	—	8,264
Other programs	15	727	797	—	—	—	—	—	351	7	(6)	1,891
Total program services	15	70,791	7,876	915,729	10,884	3,381	3,635	6,644	351	7	(76,355)	942,958
Supporting services:												
Management and general	3,937	1,006	2,562	55,695	1,741	1,364	751	1,079	132	18	(4,227)	64,058
Fund-raising	3,703	31	20	—	—	—	—	—	5	—	—	3,759
Total supporting services	7,640	1,037	2,582	55,695	1,741	1,364	751	1,079	137	18	(4,227)	67,817
Total operating expenses	7,655	71,828	10,458	971,424	12,625	4,745	4,386	7,723	488	25	(80,582)	1,010,775
Gain (loss) from operations before gain on sale/disposal of fixed assets	(7,550)	6,968	(6,202)	(20,725)	(2,710)	(2,956)	(1,339)	(3,298)	(488)	87	(92)	(38,305)
Gain on sale/disposal of fixed assets	—	(3)	149,011	(1)	—	—	—	—	—	161	—	149,168
Gain (loss) from operations	(7,550)	6,965	142,809	(20,726)	(2,710)	(2,956)	(1,339)	(3,298)	(488)	248	(92)	110,863
Nonoperating revenue, gains, and losses:												
Contributions and grants (including in-kind of \$35)	1,603	340	997	2	13	126	11	4	193	8	—	3,297
Special events (net of direct cost of special events of \$460)	1,908	—	—	—	—	—	—	—	—	—	—	1,908
Legacies and bequests	2,472	2,035	2,402	—	—	—	—	—	—	—	—	6,909
Interest and dividend income (net of expenses of \$1,547)	—	3,290	543	2,862	1	—	—	—	—	—	—	6,696
Net realized and unrealized losses on investments	—	(2,090)	(1,281)	(6,297)	—	—	—	—	—	—	—	(9,668)
Distributions from perpetual trusts	—	37	464	—	—	—	—	—	—	—	—	501
Grant from Jewish Guild Healthcare	—	—	—	—	—	4	2	—	—	—	(6)	—
Change in value of annuity obligations	—	(162)	(375)	—	—	—	—	—	—	—	—	(537)
Change in value of beneficial interest in trusts	—	(49)	952	—	—	—	—	—	—	(26)	—	877
Extinguishment of contribution payable	—	2,660	—	—	—	—	—	—	—	—	—	2,660
Total nonoperating revenue, gains, and losses, net	5,983	6,061	3,702	(3,433)	14	130	13	4	193	(18)	(6)	12,643
Excess of revenue, gains, and losses over expenses before other changes	(1,567)	13,026	146,511	(24,159)	(2,696)	(2,826)	(1,326)	(3,294)	(295)	230	(98)	123,506
Other changes:												
Pension and postretirement benefit changes other than net periodic benefit cost	—	1,053	(5,868)	—	—	—	—	—	—	—	—	(4,815)
Reserve for affiliates	(5,385)	(33,662)	—	—	—	—	—	—	—	—	39,047	—
Change in net assets	(6,952)	(19,583)	140,643	(24,159)	(2,696)	(2,826)	(1,326)	(3,294)	(295)	230	38,949	118,691
Net assets, beginning of year	(4,235)	166,312	16,538	148,781	(35,527)	(21,186)	(22,132)	(19,359)	(784)	(2,150)	76,579	302,837
Net assets, end of year	\$ (11,187)	146,729	157,181	124,622	(38,223)	(24,012)	(23,458)	(22,653)	(1,079)	(1,920)	115,528	421,528

See accompanying independent auditors' report.