THE LIGHTHOUSE FOR THE BLIND, INCORPORATED AND ITS FOUNDATION

Independent Auditor's Report and Consolidated Financial Statements with Supplemental Information

September 30, 2007 and 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Lighthouse for the Blind, Incorporated and its Foundation

We have audited the accompanying consolidated balance sheet of The Lighthouse for the Blind, Incorporated and its Foundation (the Organization) as of September 30, 2007 and 2006, and the related consolidated statements of activities and changes in unrestricted net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization at September 30, 2007 and 2006, and changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on page 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Moss Adams LLP

Seattle, Washington
December 20, 2007

THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATION
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2007 AND 2006

ASSETS

	2007	2006
CURRENT ASSETS		
Cash	$ 128,660	$ 261,700
Investments	6,823,628	7,033,377
Accounts receivable, net of allowance for doubtful accounts of $92,082 in 2007 and $77,619 in 2006	6,027,071	2,806,941
Other receivables	340,915	180,316
Inventory	4,029,446	5,116,974
Other assets	229,842	222,834
Total current assets	17,579,562	15,622,142
LONG-TERM INVESTMENTS	13,137,081	10,374,343
PREPAID PENSION EXPENSE	65,635	2,765,496
PROPERTY, PLANT AND EQUIPMENT, net	6,601,013	6,562,955
	$ 37,383,291	$ 35,324,936

LIABILITIES AND UNRESTRICTED NET ASSETS

	2007	2006
CURRENT LIABILITIES		
Accounts payable	$ 2,175,335	$ 1,500,873
Deferred revenue	346,465	272,405
Accrued vacation and sick leave	806,379	729,797
Other liabilities	291,434	273,446
Total current liabilities	3,619,613	2,776,521
UNRESTRICTED NET ASSETS		
General	20,626,597	22,174,072
Board designated	13,137,081	10,374,343
	33,763,678	32,548,415
	$ 37,383,291	$ 35,324,936

See accompanying notes.

THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
AND CHANGES IN UNRESTRICTED NET ASSETS
YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
NET SALES	$ 37,596,604	$ 33,348,110
COST OF SALES	28,749,839	26,750,715
	8,846,765	6,597,395
COSTS AND EXPENSES		
Warehouse and shipping	524,335	530,297
Selling	451,071	348,963
Administrative	4,929,791	4,450,017
	5,905,197	5,329,277
INCOME FROM MANUFACTURING AND BASE SUPPLY OPERATIONS	2,941,568	1,268,118
OTHER INCOME (LOSS)		
Investment return	1,357,263	895,733
Excess of employee and community services expenses over support and revenue	(1,734,418)	(1,555,194)
Other income (loss), net	(359,002)	112,562
Bequests, contributions, grants and charitable trust distributions	954,493	306,615
	218,336	(240,284)
PENSION BENEFIT OBLIGATION ADJUSTMENT	(1,944,641)	-
CHANGE IN UNRESTRICTED NET ASSETS	1,215,263	1,027,834
UNRESTRICTED NET ASSETS		
Beginning of year	32,548,415	31,520,581
End of year	$ 33,763,678	$ 32,548,415

See accompanying notes.

THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 1,215,263	$ 1,027,834
Adjustments to reconcile change in unrestricted net assets to cash provided by operating activities		
Depreciation	1,005,642	977,007
Realized and unrealized gain on investments, net	(1,046,288)	(648,050)
Loss on sale of property, plant and equipment	-	(6,500)
Changes in operating assets and liabilities		
Receivables	(3,380,729)	547,746
Inventory	1,087,528	788,501
Other assets	(7,008)	(30,062)
Prepaid pension cost	755,220	213,993
Liabilities	843,092	(458,581)
	472,720	2,411,888
INVESTING ACTIVITIES		
Purchases of investments	(13,515,294)	(1,185,005)
Proceeds from sale of investments	12,008,593	12,548
Purchases of property, plant and equipment	(1,043,700)	(1,198,448)
Proceeds from sale of property, plant and equipment	-	6,500
Adjustment to pension benefit obligation	1,944,641	-
	(605,760)	(2,364,405)
CHANGE IN CASH	(133,040)	47,483
CASH		
Beginning of year	261,700	214,217
End of year	$ 128,660	$ 261,700

See accompanying notes.

Note 1 - Operations and Summary of Significant Accounting Policies

Operations - The Lighthouse for the Blind, Incorporated (the Lighthouse) is a not-for-profit organization whose objective is to create and enhance opportunities for independence and self-sufficiency of people who are blind, Deaf-Blind and blind with other disabilities. The principal activities of the Lighthouse are conducted at its office and plant facility located in Seattle, Washington.

The principal functions of the Lighthouse include:

- Operating a metal fabricating and assembly shop in which parts are fabricated and assembled for an airplane manufacturer and others; manufacturing of military canteens, hydration systems, easels, notebook binders, paper trimmers, file folders and other items under government contracts.
- Operating military base supply centers for sales of office and other supplies to the bases.
- Manufacturing business cards under government contracts.
- Manufacturing household items.
- Operating a sewing department in which traffic safety clothing and other items are manufactured under government contracts.
- Operating a center that provides evaluation, orientation and mobility, vocational, communication and educational training services.

The Seattle Lighthouse for the Blind Foundation (the Foundation) is an organization committed to soliciting funds exclusively for the Lighthouse. The Foundation was formed in January 2003 as a 501(c)(3) organization.

Principles of Consolidation - The Lighthouse and the Foundation (collectively, the Organization) have some common Board of Trustees members and common management. Accordingly, the results of the Lighthouse and the Foundation have been consolidated as of September 30, 2007 and 2006, and for the years then ended. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Basis of Presentation - The Organization presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under the requirements of SFAS No. 117, financial position and activities are reported according to three classes of net assets - unrestricted, temporarily restricted and permanently restricted. The restriction of these net assets classes is determined based on the existence and nature of donor-imposed restrictions. Temporarily restricted support received during the fiscal period, for which the restriction expires or the purpose is accomplished during the same period, is reported as unrestricted support.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

At September 30, 2007 and 2006, the Organization had no significant temporarily or permanently restricted net assets.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the current year presentation. There was no effect to net assets as a result of these classifications.

Investments - Investments in equity securities with readily determinable fair values and all debt securities are carried at fair value based on quoted market values. Realized and unrealized gains and losses are included in the determination of change in unrestricted net assets. Any investment return on donor restricted balances is reported as unrestricted revenue unless the donor has stipulated otherwise. Investments with original maturities of three months or less at the date of purchase are considered to be cash equivalents. The Organization holds cash with financial institutions in excess of federally insured limits.

Allowance for Doubtful Accounts - The Organization extends credit to substantially all of its customers. Accounts receivable are recorded at the invoice amount and do not bear interest. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of its customers to pay. The Organization determines the allowance based on review of past due balances, historical write-off experience and economic data. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Organization has established credit policies and historically the losses related to customer nonpayment have been low as a percentage of net sales.

Inventory - Inventory is recorded at the lower of cost (as determined by the first-in, first-out method) or market.

Property, Plant and Equipment - Property, plant and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets, which range as follows:

Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 15 years

The Organization follows the practice of capitalizing substantially all expenditures for property, plant and equipment in excess of $5,000.

Deferred Revenue - Deferred revenue represents customer prepayments for purchases of base supply center and manufactured items. The revenue from these prepaid funds is recorded at the time the goods are shipped or delivered.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

Bequests and Contributions - As the Organization does not usually receive advance notification of charitable trust fund distributions or other contributions, bequests and contributions are generally recognized as income at fair market value when the gift is received. However, in the event that specific advance notice is provided, bequests and contributions are recognized when an unconditional promise is made and all donor-imposed conditions relating to the promise are met.

Income Taxes - The Lighthouse and the Foundation are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, and accordingly are generally exempt from federal income taxes under the provisions of Section 501(a). However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. Currently there is no unrelated business income. In addition, the Organization qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a).

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 - Investments

Investments consist of the following at September 30:

	2007	2006
Investments		
Money market funds	$ 6,823,628	$ 1,010,692
Fixed income securities	-	6,022,685
	6,823,628	7,033,377
Long-term investments		
Cash and cash equivalents	1,063,375	528,974
U.S. government securities	2,689,986	1,692,346
Corporate debt	1,619,045	1,235,559
Equity securities	7,764,675	6,917,464
	13,137,081	10,374,343
	$ 19,960,709	$ 17,407,720

Note 2 - Investments (Continued)

The Board of Trustees (the Board) has designated certain assets, consisting of unrestricted bequests and contributions, to be invested separately from assets generated by operations. The Board has further specified that these assets be allowed to accumulate to a level as determined by the Board, based on current market conditions, at which time the investment income is to be used to support employee and community service programs and as otherwise designated by the Board.

The following summarizes the investment return at September 30:

	2007	2006
Dividends and interest	$ 310,975	$ 247,683
Realized gain, net	813,023	735,797
Unrealized gain (loss), net	233,265	(87,747)
	$ 1,357,263	$ 895,733

Note 3 - Inventory

Inventory is composed of the following at September 30:

	2007	2006
Raw materials	$ 2,392,705	$ 2,914,050
Work-in-process	1,064,177	827,027
Finished goods	572,564	1,375,897
	$ 4,029,446	$ 5,116,974

Note 4 - Employee Benefit Plans

Defined Benefit Pension Plan - The Organization maintains a defined benefit pension plan (the Plan) for substantially all employees. Participant benefits are primarily related to years of credited service and annual earnings. An employee is eligible to participate in the Plan after completing one year of service and upon attaining 21 years of age. The Organization's funding policy is to contribute annually an amount equal to the normal cost of the Plan. The benefit formula is a career average unit of credit formula under which employees can earn 1.5% of their annual wages for each year of service.

Note 4 - Employee Benefit Plans (Continued)

The following is the Plan's funded status and amounts recognized in the Organization's financial statements as of and for the years ended September 30:

	2007	2006
Change in projected benefit obligation (PBO)		
Benefit obligation at beginning of year	$ 13,826,442	$ 12,922,590
Service cost	620,180	497,689
Interest cost	780,070	728,099
Benefits paid	(411,666)	(394,660)
Administrative expenses	(64,463)	(92,850)
Actuarial loss	(309,557)	165,574
Projected benefit obligation at end of year	$ 14,441,006	$ 13,826,442
Change in plan assets		
Fair value of plan assets at beginning of year	$ 13,381,766	$ 12,125,986
Actual return on plan assets	1,601,004	1,229,375
Employer contributions	-	513,915
Benefits paid	(411,666)	(394,660)
Administrative expenses	(64,463)	(92,850)
Fair value of plan assets at end of year	$ 14,506,641	$ 13,381,766
End of year reconciliation		
Funded status	$ 65,635	$ (444,676)
Unrecognized prior service cost	-	371,622
Unrecognized net actuarial loss	-	2,838,550
Prepaid benefit cost	$ 65,635	$ 2,765,496
Accumulated benefit obligation	$ 13,225,444	$ 12,619,225

Note 4 - Employee Benefit Plans (Continued)

Adoption of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* was required by the Organization during the year ended September 30, 2007. The Organization recorded a prepaid benefit expense of $65,635 at June 30, 2007 related to this adoption. There were no intangible assets recorded related to unrecognized prior service costs in 2007. Adoption of SFAS No. 158 resulted in a downward adjustment to the previously recorded prepaid benefit expense of $1,944,641.

Expected benefit payments	
2008	$ 604,696
2009	$ 624,346
2010	$ 623,957
2011	$ 673,630
2012	$ 731,742
2013 through 2017	$ 4,457,235

Weighted-average assumptions as of September 30:	2007	2006
Discount rate	6.20%	5.75%
Expected return on plan assets	6.75%	6.75%
Rate of compensation increase	4.00%	4.00%

	Year Ended September 30,		
	Expected 2008	Actual 2007	Actual 2006
Employer contributions			
Required	$ -	$ -	$ -
Additional discretionary	800,000	-	513,915
Total	$ 800,000	$ -	$ 513,915

	Target %	2007 (Actual)	2006 (Actual)	Expected Return
Allocation of plan assets				
Cash and cash equivalents	1-10%	6.54%	6.22%	3.20%
Fixed income	25-55%	35.10%	30.62%	4.50%
Equities	45-60%	58.36%	63.16%	8.05%

Note 4 - Employee Benefit Plans (Continued)

The Organization had no non-cash contributions during the year ended September 30, 2007 and has no expectation of non-cash contributions in future years.

Investment goals and risk management practices:

- The investment objective of this portfolio is to provide growth with income, with appropriate consideration for diversification and quality.
- Investment managers shall have sole discretion to make investment decisions, within the scope of the Investment Policy approved by the Lighthouse Board of Trustees.
- Disciplined risk management is expected to produce returns over time consistent with the portfolio's objectives.

Tax-Deferred Annuity Plan - The Organization offers a tax-deferred annuity plan for all employees who meet certain eligibility requirements. Participants may contribute up to 50% of their annual compensation. The Organization makes contributions to the annuity plan up to 4.5% of employee compensation. Contributions under the annuity plan by the Organization were $207,139 and $175,732 for the years ended September 30, 2007 and 2006.

Note 5 - Property, Plant and Equipment

Property, plant and equipment consist of the following at September 30:

	2007	2006
Land	$ 675,590	$ 675,590
Buildings and improvements	7,829,485	7,642,621
Machinery and equipment	15,694,901	14,859,619
	24,199,976	23,177,830
Less accumulated depreciation	17,598,963	16,614,875
	$ 6,601,013	$ 6,562,955

Note 6 - Employee and Community Services Center

The Employee and Community Services Center (ECS Center), a division of the Organization, provides evaluation, orientation, mobility, communication and basic education skills training to blind, Deaf-Blind and multi-disabled blind adults. The goal of this training is to enable persons who are blind to be independent and economically self-supporting.

All bequests, contributions and charitable trust distributions that are restricted by the donor for the benefit of disabled individuals are allocated to the ECS Center and utilized in the period they are received.

An allocation of various expenses (e.g., heat, electricity and telephone) to the ECS Center's operations is based on estimates of management.

A schedule of support and revenue and expenses of the ECS Center for the years ended September 30 is as follows:

	2007	2006
Support and revenue		
State and local government funding	$ 257,706	$ 235,557
Federal funding	-	95,376
Other	16,737	9,558
	274,443	340,491
Expenses		
Salaries and related expenses	1,411,684	1,204,554
Administrative expenses	522,198	623,422
Deaf-Blind retreat	74,979	67,709
	2,008,861	1,895,685
Excess of employee and community services expenses over support and revenue	$ (1,734,418)	$ (1,555,194)

Note 7 - Bequests, Contributions, Grants and Charitable Trust Distributions

The Organization is the beneficiary of specific bequests and contributions each year, as well as a portion of the income earned from several charitable trust funds. Such trust funds are not recorded in the accompanying financial statements. These funds are held and managed by trustees under discretionary trust agreements.

Note 8 - The Foundation

The Seattle Lighthouse for the Blind Foundation was established as a supporting organization to the Lighthouse for the Blind, Inc. The Foundation's purpose is to support the mission of the Lighthouse for the Blind, Inc., which is to create and enhance opportunities for independence and self-sufficiency of people who are blind, Deaf-Blind and blind with other disabilities.

The financial position at September 30, 2007 and 2006, and the financial activities for the years then ended of the Foundation, which are included in the accompanying consolidated financial statements, are as follows:

	2007	2006
Cash and investments	$ 2,118,096	$ 1,942,081
Unrestricted net assets	$ 2,118,096	$ 1,942,081
Net assets at beginning of year	$ 1,942,081	$ 1,934,117
Contributions received	954,493	642,276
Interest income	44,564	40,709
Realized gain on investments, net	50,028	-
Unrealized gain on investments, net	117,904	106,344
Contribution to the Lighthouse	(549,054)	(288,444)
In-kind expense	(140,369)	(148,750)
Operating expenses allocated from Lighthouse	(301,551)	(344,171)
Net assets at end of year	$ 2,118,096	$ 1,942,081

Expenses incurred by the Foundation include allocations of personnel and facilities costs from the Lighthouse, as well as expenses relating to donor acquisition, development of Foundation and procedures and in-kind contributions expense related to the contribution of goods and services.

Note 9 - Concentration of Credit Risk and Dependence on Customers

Financial instruments that potentially subject the Organization to concentrations of credit risk include deposits with financial institutions. The Organization places its deposits with high credit quality financial institutions. However, at times, deposits exceed the federally insured limits.

Note 9 - Concentration of Credit Risk and Dependence on Customers (Continued)

During the year ended September 30, 2007, approximately 46% of sales were to two customers. At September 30, 2007, approximately 63% of trade accounts receivable was due from these customers. During the year ended September 30, 2006, approximately 54% of sales were to three customers. At September 30, 2006, approximately 26% of trade accounts receivable was due from two of these customers.

Note 10 - Contingencies

As of September 30, 2007, the Organization was in negotiations to purchase a building in Spokane, Washington. The purchase price is estimated to be approximately $3.6 million, funded with $2.0 million in debt and $1.6 million from cash reserves. The building will be used primarily for manufacturing of office products under government contracts, similar to operations in Seattle. The purchase is expected to close in January 2008.

SUPPLEMENTAL INFORMATION

The Danny Lord Foundation was established to further the charitable activities of the Organization. The Danny Lord Foundation is organized as a charitable trust within the definition of section 501(c)(3) of the Internal Revenue Code. The Trustees of the Danny Lord Foundation are all members of the Organization's Board of Trustees and, thus, exercise significant control over the operations of the Danny Lord Foundation. The Charitable Trust Agreement provides that investment income realized (excluding capital gains) from Danny Lord Foundation's investments is to benefit the Organization. Under the direction of the Board of Trustees, realized investment income is applied to the ECS Center, a division of the Organization, and is recorded as a contribution.

The investments held by the Danny Lord Foundation and the related appreciation (depreciation) are not recorded in the accounts of the Organization. A summary of the Danny Lord Foundation's assets, unrestricted net assets and the changes in unrestricted net assets currently held for the benefit of the Organization follows:

	2007	2006
Investments	$ 689,856	$ 636,180
Unrestricted net assets	$ 689,856	$ 636,180
Unrestricted net assets at beginning of the year	$ 636,180	$ 588,857
Investment income	17,978	16,376
Transfers to Rehabilitation Services Center	(20,000)	-
Realized gain on investments, net	21,945	13,408
Unrealized gain on investments, net	33,753	17,539
Unrestricted net assets at end of the year	$ 689,856	$ 636,180