LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Financial Statements and Schedules

December 31, 2018 and 2017

(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

To 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, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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, 2018 and 2017, the results of their operations, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matter

As discussed in note 2(aa) to the consolidated financial statements, Lighthouse Guild International, Inc. and affiliates adopted Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, during the year ended December 31, 2018 on a retrospective basis. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were 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

April 11, 2019

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Balance Sheets

December 31, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	17,436	36,147
Investments, current portion (note 3)		328,776	478,968
Due from third-party payors and other, net of allowance for doubtful accounts of $1,431 and $4,012 in 2018 and 2017, respectively (notes 10 and 17)		16,616	20,032
Prepaid expenses and other current assets (note 4)		6,717	6,170
Assets limited as to use: statutory escrow, current portion (notes 3 and 13)		32,547	—
Total current assets		402,092	541,317
Assets limited or restricted as to use:			
Statutory escrow (notes 3 and 13)		—	51,892
Endowment investments (notes 3 and 9)		25,315	25,392
Beneficial interest in perpetual trusts (notes 3 and 15)		10,493	11,491
Total assets limited or restricted as to use		35,808	88,775
Investments, net of current portion (note 3)		32,418	14,363
Fixed assets, net (note 5)		201,641	257,385
Other assets (notes 4 and 15)		13,615	17,392
Total assets	$	685,574	919,232
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	17,420	17,276
Claims payable (note 18)		42,572	84,706
Accrued premium deficiency (note 2)		—	10,141
Accrued salaries and related expenses		8,500	6,649
Due to third-party payors, net (note 10)		20,473	3,229
Due to providers (note 10)		—	20,634
Current portion of notes payable (note 6)		30,000	—
Current portion of capital lease payable (note 7)		675	643
Current portion of accrued pension and postretirement medical benefits (notes 11 and 12)		67	125
Current portion of annuity obligations (note 16)		527	572
Other current liabilities (note 14)		2,878	2,244
Total current liabilities		123,112	146,219
Long-term liabilities:			
Notes payable, net of current portion (note 6)		74,300	74,300
Capital lease payable, net of current portion (note 7)		191,431	192,117
Accrued pension and postretirement medical benefits, net of current portion (notes 11 and 12)		28,683	29,166
Annuity obligations, net of current portion (note 16)		2,031	2,240
Other liabilities (note 14)		3,664	2,363
Total liabilities		423,221	446,405
Net assets:			
Net assets without donor restrictions (note 8)		213,849	419,975
Net assets with donor restrictions (note 8)		48,504	52,852
Total net assets		262,353	472,827
Commitments and contingencies (notes 10 and 14)			
Total liabilities and net assets	$	685,574	919,232

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, 2018 and 2017

(In thousands)

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue and other support from operations:						
Program revenue (note 2)	$ 486,552	—	486,552	822,675	—	822,675
Net patient service revenue	11,352	—	11,352	10,032	—	10,032
Provision for bad debts (note 2)	(1,324)	—	(1,324)	(1,094)	—	(1,094)
Other revenue (note 20)	3,858	—	3,858	1,109	—	1,109
Net assets released from restrictions (note 8)	2,281	(2,281)	—	4,279	(4,279)	—
Total revenue and other support from operations	502,719	(2,281)	500,438	837,001	(4,279)	832,722
Operating expenses (note 22):						
Program services:						
Managed care	532,258	—	532,258	772,733	—	772,733
Provider services	25,592	—	25,592	29,285	—	29,285
Total program services	557,850	—	557,850	802,018	—	802,018
Supporting services:						
Management and general	85,332	—	85,332	86,607	—	86,607
Total supporting services	85,332	—	85,332	86,607	—	86,607
Total operating expenses	643,182	—	643,182	888,625	—	888,625
Loss from operations before (impairment) gain on disposal of fixed assets	(140,463)	(2,281)	(142,744)	(51,624)	(4,279)	(55,903)
(Impairment) gain on disposal of fixed assets (note 2(l))	(45,243)	—	(45,243)	120,655	—	120,655
(Loss) gain from operations	(185,706)	(2,281)	(187,987)	69,031	(4,279)	64,752
Nonoperating revenue, gains, and losses:						
Contributions and grants	1,359	838	2,197	2,166	977	3,143
Special events, net	72	—	72	1,058	—	1,058
Legacies and bequests	2,202	166	2,368	4,498	823	5,321
Interest and dividend income	7,975	508	8,483	6,963	439	7,402
Net realized and unrealized (losses) gains on investments	(31,210)	(2,431)	(33,641)	44,425	3,032	47,457
Distributions from perpetual trusts	424	22	446	407	23	430
Change in value of annuity obligations (note 16)	(297)	—	(297)	(394)	—	(394)
Change in value of beneficial interest in trusts (note 16)	—	(1,170)	(1,170)	—	1,685	1,685
Total nonoperating revenue, gains, and losses, net	(19,475)	(2,067)	(21,542)	59,123	6,979	66,102
(Deficiency) excess of revenue, gains, and losses over expenses before other changes	(205,181)	(4,348)	(209,529)	128,154	2,700	130,854
Other changes:						
Pension and postretirement benefit changes other than net periodic benefit cost (notes 11 and 12)	(945)	—	(945)	2,728	—	2,728
Change in net assets	(206,126)	(4,348)	(210,474)	130,882	2,700	133,582
Net assets, beginning of year	419,975	52,852	472,827	289,093	50,152	339,245
Net assets, end of year	$ 213,849	48,504	262,353	419,975	52,852	472,827

See accompanying notes to consolidated financial statements.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	(210,474)	133,582
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Contributions restricted for annuity agreements		(11)	(6)
Depreciation and amortization		14,496	14,706
Bond discount amortization		—	188
Provision for bad debts		1,324	1,094
Pension and postretirement benefit changes other than net periodic benefit cost		945	(2,728)
Net realized and unrealized gains on investments		33,641	(47,457)
Impairment (gain on disposal) of fixed assets		45,243	(120,655)
Change in value of annuity obligations		297	394
Change in value of beneficial interest in irrevocable trusts		172	(404)
Change in value of beneficial interest in perpetual trusts		998	(1,281)
Changes in operating assets and liabilities:			
Due from third-party payors and other		2,092	16,344
Prepaid expenses, other current assets, and other assets		(788)	(8,459)
Accounts payable and accrued expenses		4,214	2,868
Accrued claims payable		(42,134)	(89,406)
Accrued premium deficiency		(10,141)	(4,859)
Accrued salaries and related expenses		1,851	(262)
Accrued pension and postretirement medical benefits		(1,486)	1,100
Due to third-party payors		17,244	1,129
Due to providers		(20,634)	20,634
Other current and other liabilities		1,935	2,102
Net cash used in operating activities		(161,216)	(81,376)
Cash flows from investing activities:			
Purchases of fixed assets		(5,030)	(27,930)
Proceeds from sale of fixed assets		—	91,431
Proceeds from sales of investments		281,829	125,294
Proceeds from sales of assets limited or restricted as to use		57,421	51,670
Purchases of investments		(182,829)	(194,694)
Purchases of assets limited or restricted as to use		(38,503)	(52,676)
Proceeds from irrevocable trust		811	—
Net cash provided by (used in) investing activities		113,699	(6,905)
Cash flows from financing activities:			
Proceeds from contributions restricted for annuity obligations		20	10
Proceeds from notes payable		30,000	24,200
Payments on capital leases		(654)	(724)
Payments of annuity obligations		(560)	(560)
Net cash provided by financing activities		28,806	22,926
Net decrease in cash and cash equivalents		(18,711)	(65,355)
Cash and cash equivalents, beginning of year		36,147	101,502
Cash and cash equivalents, end of year	$	17,436	36,147
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	8,864	8,282
Fixed assets accrued in accounts payable		1,000	5,070

See accompanying notes to consolidated financial statements.

(1) Nature of Organization

The accompanying consolidated financial statements include Lighthouse Guild International, Inc. and its subsidiaries, The Jewish Guild for the Blind (JGB) and Affiliates d/b/a Jewish Guild Healthcare and Affiliates and Lighthouse International and Affiliate (the Lighthouse) (collectively, LGI).

Lighthouse Guild International, Inc. was incorporated on November 7, 2013 to improve the operational effectiveness of JGB and the Lighthouse 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 JGB 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 JGB; Lighthouse; and Lighthouse Guild International, Inc. They are considered disregarded entities for federal income tax purposes.

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.

The JGB affiliates include GuildNet, Inc. (GuildNet); J.G.B. Health Facilities Corporation (H.F.C.); J.G.B. Rehabilitation Corporation (Rehab); J.G.B. Education Services; Greater Boston Guild for the Blind; J.G.B. Mental Health and Mental Retardation Services, Inc. (MHS); and National Association of Parents of Children with Visual Impairments, Inc. (NAPVI) (collectively, the Guild).

GuildNet operates three health plans covering all medical and healthcare needs predominantly for individuals who are blind and visually impaired:

- Partially Capitated Medicaid Managed Long-Term Care (MLTCP) – for individuals 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 individuals 18 or older, who have both Medicare and Medicaid and have long-term healthcare needs
- Fully Integrated Dual Advantage Plan (FIDA) Demonstration Project – for individuals 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 GuildNet's revenue are premium capitation payments received from Medicaid and Medicare. During 2018, GuildNet requested and received approval from New York State Department of Health (NYSDOH) to cease providing MLTCP services in all counties of New York City effective December 31, 2018 and all members have been transferred to other MLTC plans. GuildNet also received approval from the Centers for Medicare and Medicaid Services (CMS) to cease providing services effective January 1, 2019.

H.F.C. was incorporated on September 18, 1979 and operated adult day healthcare programs in New York City, Buffalo, Albany, and Niagara Falls through September 27, 2017. During 2017, Rehab requested and received approval from NYSDOH to take over the operation of the four adult day healthcare programs run by H.F.C. commencing on September 28, 2017. H.F.C.'s operations are included in Rehab for 2018. H.F.C.'s sources of revenue are reimbursements from Medicaid and other third-party payors.

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 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. During 2018, J.G.B. Education Services requested and received approval from New York City Department of Education to cease providing services effective December 31, 2018 and all students have transferred to other schools.

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.

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. MHS's primary sources of revenue are reimbursement for services rendered from Medicaid, Medicare, and private insurance companies.

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. NAPVI's operations were wound down effective December 31, 2018 because the funding from the Lavelle grant, the last source of funding, ended effective December 31, 2018.

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.

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 consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

(b) Basis of Consolidation

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

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. 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) Cash and Cash Equivalents

LGI considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash in bank accounts, certificate of deposits, and money market accounts.

(f) 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 consolidated financial statements.

(g) Fair Value Measurements

Accounting Standards Codification (ASC) Topic 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
  - 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 inputs must be observable for substantially the full term of the asset or liability.

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

The asset's 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 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, 2018, as compared to those used at December 31, 2017.

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 and common collective trusts – Valued using the fair values of the underlying assets held by the trusts.

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, 2018 and 2017.

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 existed. Alternative investments measured at NAV are not categorized within the fair value hierarchy.

(h) Accounts Receivable and Allowance for Doubtful Accounts

LGI records receivables based on established rates or contracts for service provided. An allowance for doubtful accounts 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, historical collection experience and write-offs, and a review of payments subsequent to year-end. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

(i) 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 an allowance for doubtful accounts. Factors used to determine whether an allowance for doubtful accounts should be recorded include the age of the receivable, historical collection experience and write-offs, and a review of payments subsequent to year-end.

(j) 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, endowment investments, and beneficial interest in perpetual trusts.

(k) Fixed Assets

Fixed assets are stated at cost. Capital acquisitions, leasehold improvements and 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.

(l) Impairment of Assets

LGI reviews fixed assets and intangible asset 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. Due to the loss from operations and decision to cease providing services by GuildNet and JGB Education Services, an impairment analysis of fixed assets and intangible assets was performed. Impairments of fixed assets and intangible assets recorded for the years ended December 31, 2018 and December 31, 2017 were $45,243 and $2,143, respectively.

(m) Due to/from Third-Party Payors and Due to Providers

Due to/from third-party payors represents amounts due to/from the NYSDOH and CMS for capitation payments, retroactive rate adjustments, quality incentive payments, Health Recruitment and Retention funds, high cost/high needs pool, payable for minimum loss ratio requirement, minimum wage adjustments, and the NYSDOH's Independent Office of Medicaid Inspector General (OMIG) estimated settlements. Also included are amounts to/from the New York City Department of Education. As the above amounts are estimates, it is at least reasonably possible that a change in the estimate will occur in the near term. Due to providers includes Quality Incentive Vital Access Provider Pool (QIVAPP) and payable under minimum wage adjustments (note 10).

(n) Claims Payable

GuildNet contracts with various healthcare providers for the provision of certain medical care services to its enrollees. Unpaid claims and unpaid claims adjustment expenses include reported claims and claims incurred but not 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.

(o) Accrued Premium Deficiency

Losses under prepaid healthcare services contracts are required 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. Because GuildNet has withdrawn from all MLTC, FIDA, and MAP offerings effective at December 31, 2018, no premium deficiency is required. As a result, GuildNet has reversed the recorded premium deficiency accrual of $10,141 that was recorded in the accompanying consolidated balance sheets at December 31, 2017. 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 consolidated statements of operations and changes in net assets.

(p) Annuity Obligations

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

(q) Net Assets

Net assets are presented as follows: without donor restrictions and with donor restrictions.

Net assets without donor restrictions do not have any donor-imposed restrictions as to use or purpose. These assets include net assets available for operations and the net assets set aside to meet regulatory requirements for GuildNet (statutorily restricted). See note 13 for statutory reserve.

Net assets with donor restrictions are restricted by donors to be used in a specified time period or for a specific purpose. They also include the funds, which 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.

Revenue from donor-imposed restrictions is reported as increases in net assets with donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expiration of restrictions on net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled, and/or the stipulated time period has elapsed) is reported as reclassifications between with and without donor restrictions in the applicable classes of net assets. Donor-restricted contributions whose restrictions are met in the same reporting period have been reported as without donor restrictions in the statements of operations and changes in net assets.

(r) Program and Patient Service Revenue

Program and patient service revenue includes 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 includes premium capitation revenue of $477,301 and $810,156 for the years ended December 31, 2018 and 2017, respectively. Patient service revenue, net of contractual allowances and discounts includes third-party payors of $11,011 and $9,837 and self-pay of $341 and $195 for the years ended December 31, 2018 and 2017, respectively.

Ambulatory Patient Groups 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 freestanding Article 31 Mental Health Clinic are reimbursed based on this methodology.

(s) 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 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, which is included in management and general expense. Rent expense is recorded on a straight-line basis. Deferred rent is recorded where there are material differences between the fixed payment and the rent expense.

(t) 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, and pension and postretirement benefit changes other than net periodic benefit cost.

(u) Contributions and Special Events

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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of operations as net assets released from restrictions. Special events revenue is recorded net of direct costs of $228 and $359 for the years ended December 31, 2018 and 2017, respectively.

(v) 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. For the years ended December 31, 2018 and 2017, respectively, $18 and $15 are recorded as contributions and grants revenue in the consolidated statements of operations and changes in net assets.

(w) Grants

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

(x) Advertising Costs

Advertising costs are expensed as incurred. LGI incurred advertising costs of $683 and $406 in 2018 and 2017, respectively, which are included in management and general expense.

(y) Surplus Note

During 2016, GuildNet issued a Subordinated Surplus Note (Surplus Note) to JGB, made under and governed by the laws of the State of New York, in the aggregate amount of $47,089. The unpaid, outstanding principal amount of the Surplus Note bears interest at a variable annual rate equal to the Prime Rate plus 1%. The Surplus Note is repayable, subject to the approval of the Commissioner of the NYSDOH, in whole or in part, only if such payment will not reduce GuildNet's surplus below the applicable NYSDOH regulatory minimum contingent reserve requirement in effect at the time of such payment. GuildNet recorded interest expense on the surplus note of $2,565 and $2,402 for the years ended December 31, 2018 and 2017, respectively. The Surplus Note and the related interest expense are eliminated in consolidation.

(z) 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 ended December 31, 2014 or June 30, 2014, as applicable, and subsequent remain subject to examination by applicable taxing authorities.

H.R. 1, originally known as the Tax Cuts and Jobs Act (the Act), was signed into law on December 22, 2017. The Act contains various provisions affecting not-for-profit entities. Tax-exempt entities are impacted in part by the inclusion of a new excise tax on excess compensation for covered employees and changes to unrelated business income. The Act's provisions may also impact donor incentives for charitable giving. The Act did not have a significant impact on the consolidated financial statements for the year ended December 31, 2018.

(Continued)

(In thousands)

(aa) Recently Adopted Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. ASU 2016-14 reduces the number of net assets from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets of $15,969 and permanently restricted net assets of $36,883. Additionally, it increases quantitative and qualitative disclosures regarding liquidity and availability of resources and requires expenses to be reported by both their natural and functional classification in one location. See notes 21 and 22. LGI adopted ASU 2016-14 in 2018 and applied the changes retrospectively. However, LGI has elected the permitted option to omit the analysis of expenses by both nature and function and disclosures about liquidity and availability of resources for 2017.

(bb) Subsequent Events

Subsequent events have been evaluated through April 11, 2019, which is the date the consolidated financial statements were available to be issued.

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

Investments and assets limited or restricted as to use at December 31 consist of the following:

		2018			
		Total	Level 1	Level 2	Level 3
Assets:					
Investments, including endowments:					
Cash and cash equivalents	$	6,387	6,387	—	—
Money market mutual funds		496	496	—	—
Certificate of deposit		70	70	—	—
Equity securities:					
International		39	39	—	—
U.S. large cap		412	412	—	—
Total equity securities		451	451	—	—
Mutual funds:					
Cash and cash equivalents		577	577	—	—
Fixed income		27,682	27,682	—	—
U.S. small-mid cap		22,953	22,953	—	—
U.S. large-cap equity		32,996	32,996	—	—
International equity		51,236	51,236	—	—
Real estate and Infrastructure		2,238	2,238	—	—
Balanced/asset allocation		191	191	—	—
Emerging markets		2,799	2,799	—	—
Multistrategy funds		2,548	2,548	—	—
Total mutual funds		143,220	143,220	—	—

(Continued)

(In thousands)

	2018			
	Total	Level 1	Level 2	Level 3
Exchange-traded funds:				
Commodities	$ 6,484	6,484	—	—
Fixed income	7,744	7,744	—	—
U.S. large-cap equity	10,852	10,852	—	—
U.S. small-mid cap equity	24,131	24,131	—	—
Emerging markets	7,341	7,341	—	—
International equity	13,227	13,227	—	—
Total exchange-traded funds	69,779	69,779	—	—
Fixed income:				
Corporate bonds	49	—	49	—
Municipal bonds	281	—	281	—
U.S. government securities	472	—	472	—
International bonds	2	—	2	—
Total fixed income	804	—	804	—
Total investments measured at fair value	221,207	$ 220,403	804	—
Alternative investments measured at net asset value (or equivalent)	165,302			
Total investments, including endowments	$ 386,509			
Assets limited as to use:				
Money market mutual funds	$ 753	753	—	—
U.S. government securities	26,547	—	26,547	—
U.S. corporate bonds	1,057	—	1,057	—
International corporate bonds	4,190	—	4,190	—
Beneficial interest in perpetual trusts	10,493	—	—	10,493
	$ 43,040	753	31,794	10,493

(In thousands)

	2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments, including endowments:				
Cash and cash equivalents	$ 51,234	51,234	—	—
Money market mutual funds	710	710	—	—
Certificate of deposit	70	70	—	—
Equity securities:				
International	724	724	—	—
U.S. large-cap	18,841	18,841	—	—
U.S. small-mid cap	1,229	1,229	—	—
Total equity securities	20,794	20,794	—	—
Mutual funds:				
Cash and cash equivalents	3,448	3,448	—	—
Fixed income	42,896	42,896	—	—
U.S. small-cap equity	23,219	23,219	—	—
U.S. large-cap equity	32,517	32,517	—	—
International equity	75,721	75,721	—	—
Emerging markets equity	3,794	3,794	—	—
Real estate and infrastructure	8,380	8,380	—	—
Commodity fund	1,284	1,284	—	—
Balanced/asset allocation	340	340	—	—
Multistrategy funds	4,664	4,664	—	—
Total mutual funds	196,263	196,263	—	—
Exchange-traded funds:				
Cash and cash equivalents	6,630	6,630	—	—
Fixed income	2,896	2,896	—	—
U.S. large-cap equity	17,481	17,481	—	—
U.S. small-mid cap equity	24,086	24,086	—	—
Emerging markets	10,642	10,642	—	—
International equity	26,737	26,737	—	—
Private equity	89	89	—	—
U.S. government obligations	8,097	8,097	—	—
Total exchange-traded funds	96,658	96,658	—	—

(Continued)

(In thousands)

	2017			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Corporate bonds	$ 50	—	50	—
Municipal bonds	211	—	211	—
U.S. government securities	496	—	496	—
International bonds	2	—	2	—
Total fixed income	759	—	759	—
Total investments measured at fair value	366,488	$ 365,729	759	—
Alternative investments measured at net asset value (or equivalent)	152,235			
Total investments, including endowments	$ 518,723			
Assets limited as to use:				
Money market mutual funds	$ 867	867	—	—
U.S. government securities	30,747	—	30,747	—
U.S. corporate bonds	12,603	—	12,603	—
International corporate bonds	7,675	—	7,675	—
Beneficial interest in perpetual trusts	11,491	—	—	11,491
	$ 63,383	867	51,025	11,491

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 years ended December 31, 2018 and 2017:

	2018	2017
Beneficial interest in perpetual trust:		
Beginning balance	$ 11,491	10,210
Unrealized (losses) gains	(998)	1,281
Ending balance	$ 10,493	11,491

The unrealized (losses) gains for the period are all related to Level 3 assets held at the reporting date.

(In thousands)

Alternative Investments

		2018			
		Net asset value	**Unfunded commitments**	**Redemption frequency**	**Redemption notice period**
Equity hedge (a)	$	1,223	—	Illiquid	—
Equity hedge (a)		7,081	—	1–3 Years	40-60 Days
Equity hedge (a)		24,326	—	Monthly/quarterly	30–90 Days
Multistrategy hedge (b)		9,174	—	Monthly/quarterly	30–75 Days
Multistrategy hedge (b)		2,008	—	Annually	60 Days
Limited partnership (d)		97,376	—	Semi-annually	120 Days
Private equity (c)		24,114	45,497	Illiquid	—
Total funds	$	165,302	45,497		

		2017			
		Net asset value	**Unfunded commitments**	**Redemption frequency**	**Redemption notice period**
Equity hedge (a)	$	5,934	—	1–3 Years	60-65 Days
Equity hedge (a)		39,247	—	Monthly/Quarterly	15–180 Days
Multistrategy (b)		3,080	—	Monthly/quarterly/ biennial/semi-annually	0–92 Days
Limited partnership (d)		95,545	—	Semi-annually	120 Days
Private equity (c)		8,429	14,825	Illiquid	—
Total funds	$	152,235	14,825		

a. *Equity hedge* – 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. *Multistrategy hedge* – 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.

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. The investment agreements for private equity funds generally expire in 10–12 years.

(In thousands)

d. *Limited partnership* – The partnership invests in pool accounts managed by third parties and primarily includes public and private equity, hedge funds, public and private real assets, and fixed income.

Investments with redemption provisions greater than one year have been classified as noncurrent assets.

(4) Contributions, Grants, and Legacies Receivable

Included in prepaid expenses and other current assets and other assets are contributions, grants, and legacies receivable, which are expected to be collected as follows as of December 31:

		2018	2017
Due within one year	$	288	399
Due in one to five years		422	816
		710	1,215
Less allowance for doubtful accounts		(61)	(311)
Discount to present value (at rates ranging from 1.64% to 2.20%)		(1)	(11)
Total contributions receivable, net	$	648	893

(5) Fixed Assets

Fixed assets at December 31 are summarized as follows:

		2018	2017	Estimated useful lives
Buildings and building improvements	$	194,541	194,396	5–50 Years
Furniture and equipment		14,019	15,333	3–15 Years
Leasehold improvements		26,765	73,323	1–10 Years
Computer software		6,554	4,792	3–15 Years
Projects in progress		—	250	
		241,879	288,094	
Less accumulated depreciation and amortization		(40,238)	(30,709)	
	$	201,641	257,385	

In 2017, LGI completed the sale of land, building, and building improvements located at 65th Street in New York City. The book value of which was $10,777. See note 20.

Leased equipment of $216 at both December 31, 2018 and 2017 is included in furniture and equipment. Associated accumulated amortization totaled $151 and $108 at December 31, 2018 and 2017, respectively. A leased building of $193,411 at both December 31, 2018 and 2017 is included in buildings and building improvements. Associated accumulated amortization totaled $15,741 and $10,926 at December 31, 2018 and 2017, respectively. See note 7. See note 2(l) for discussion of fixed assets impairment.

(6) Debt

(a) Notes Payable

LGI entered into an $80,000 multiple disbursement note agreement (the Note) with a bank on June 28, 2016 secured by LGI's investment portfolio. The Note bears interest at 0.65% above the LIBOR 30-day rate. Advances up to the total principal sum stated above could be made through July 1, 2017, which is the draw period. The term of the Note is six years for which interest only payments commenced on August 1, 2016 with a balloon payment of $80,000 or the amount advanced and outstanding due on July 1, 2022. LGI may request a five-year extension at such time. As of both December 31, 2018 and 2017, $74,300 principal has been drawn on the loan. Also on June 28, 2016, LGI entered into a $35,000 revolving note with the same bank, bearing interest at 0.65% above the LIBOR 30-day rate. The revolving note expired on June 30, 2018 and was renewed for another year expiring on July 1, 2019. The total outstanding balance of the revolving note as of Dec 31, 2018 was $30,000 and is recorded as current portion of note payable. Borrowing up to $35,000 is secured by LGI's investment portfolio.

(b) Interest Expense

Interest expense for the years ended December 31, 2018 and 2017 was $9,031 and $7,760, respectively, and is included in management and general expenses.

(c) Line of Credit

GuildNet has a line of credit with a commercial bank for $1.0 million with an expiration date of April 30, 2020. At December 31, 2018, GuildNet had no outstanding drawdowns on the line of credit.

(7) Capital Lease Payable

In 2016, JGB entered into a three-year capital lease with interest at a rate of 4.37%.

In February 2016, LGI acquired the leasehold interests in five leasehold condominium units and some common space from an unrelated not-for-profit entity for a purchase price of $30,000 plus rental payments for the remainder of the lease term. As part of the agreement for the units it acquired, LGI assumed all rights and obligations of the unrelated not-for-profit entity under the lease it has with the owner of the property. The unrelated not-for-profit entity was the sole leasehold interest in the property and had a 30-year lease with the landlord. LGI is jointly and severally liable with the not-for-profit entity under the lease agreement. Total annual rent payments under the lease are approximately $10,500 with annual rent increases of 2%. The lease will expire May 31, 2047 with the option to extend it to May 31, 2055. The transaction closed July 1, 2016.

(In thousands)

LGI accounted for the transaction as a capital lease and recognized an asset and liability on its consolidated balance sheets measured at the $30,000 up-front payment plus the present value of the minimum lease payments discounted at a 5% incremental borrowing rate. The asset is being amortized over 30.9 years or 371 months, which is the life of the lease.

The future lease payments are as follows:

		Amount
Fiscal year ending December 31:		
2019	$	6,945
2020		7,222
2021		7,793
2022		8,254
2023		8,381
Thereafter		273,639
		312,234
Less amount representing interest		(120,128)
Present value of net minimum lease payments		192,106
Less current portion		(675)
Long-term obligation under capital lease	$	191,431

On February 28, 2019, LGI agreed to sell two of the leasehold condominium units and the related common space back to the unrelated not-for-profit entity. The unrelated not-for-profit entity will assume all rights and obligations under the lease for those two units with the owner of the property. LGI expects to sublet space in one of the units and that the transaction will close in 2019.

(8) Net Assets

Net assets without donor restrictions include the statutory reserve for GuildNet at $24,519 and $41,624 at December 31, 2018 and 2017, respectively, and board designated funds of $51,349 at both December 31, 2018 and 2017.

(In thousands)

Net assets with donor restrictions are for the following purposes or periods at December 31:

		2018	2017
Subject to expenditure for a specified purpose or period:			
Scholarships	$	6,337	7,018
Research		2,476	2,406
Purchase of equipment		52	58
Other purposes		132	1,610
Time restricted		3,699	4,877
Total subject to expenditure for specified purpose or period		12,696	15,969
Held as endowed assets to generate income to be used for specified purposes:			
Patient care		1,055	1,055
Education		7,104	7,181
Research		181	181
Awards		3,123	3,123
Scholarships		1,303	1,303
Rehabilitation and youth services		500	500
Various projects		12,049	12,049
Total held as endowed fund corpus		25,315	25,392
Beneficial interest in fair value of trust funds held in perpetuity by others		10,493	11,491
Total net assets with donor restrictions	$	48,504	52,852

(In thousands)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the years ended December 31:

	2018	2017
Awards	$ —	219
Patient care	86	50
Scholarships	255	370
Various projects	155	1,846
Purchase of equipment	8	8
Education	218	702
Low vision	202	344
Rehabilitation and youth	89	—
Research	104	81
Time restriction	1,164	659
	$ 2,281	4,279

(9) Endowment Funds

(a) General

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

(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 net assets with donor restrictions (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 as a permanent endowment is classified as net assets with donor restrictions 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 net assets with donor restrictions (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 permanent endowment is classified as net assets with donor restrictions 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 aims to maintain 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 donor-restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

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 both the years ended December 31, 2018 and 2017 of up to 7%, not to exceed actual or accumulated earnings.

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. As of December 31, 2018, funds with original gift value of $23,881 were underwater by $485. There were no funds with deficiencies at December 31, 2017.

(Continued)

(In thousands)

(f) Changes in Endowment Net Assets for the Years ended December 31, 2018 and 2017

		2018		
		Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, beginning of year	$	51,349	27,181	78,530
Contributions		—	25	25
Other		—	(100)	(100)
Investment return, net		—	(1,624)	(1,624)
Appropriation of endowment assets for expenditure		—	(115)	(115)
Endowment net assets, end of year	$	51,349	25,367	76,716

		2017		
		Without donor restrictions	**With donor restrictions**	**Total**
Endowment net assets, beginning of year	$	51,349	26,109	77,458
Investment return, net		—	2,878	2,878
Appropriation of endowment assets for expenditure		—	(1,806)	(1,806)
Endowment net assets, end of year	$	51,349	27,181	78,530

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

GuildNet is responsible to report to various governmental third parties, among which are CMS, NYSDOH, and New York State Department of Financial Services. These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit, the Internal Revenue Services, the New York State Office of the Attorney General's Charities Bureau, OMIG, and other agencies, have the right to audit fiscal as well as programmatic compliance, clinical documentation, and other areas.

(a) Capitation payments for Managed, Long-Term Care Plans (including Partial MLTCP, FIDA, and MAP)

As of December 31, 2018 and 2017, NYSDOH issued draft rates through December 31, 2018 and 2017. These premium rates are the basis for revenue recognition in the consolidated financial statements.

(b) High Need/High Cost Pool Payments

The pool is established by New York State to improve risk-adjusted payment adjustments by requiring plans to submit complete and accurate data for members receiving between 12 and 24 hours of care at home and community-based ventilator patients and is funded by a premium withhold (i.e., budget neutral to New York State). NYSDOH reduces 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 24 hours of personal care services relative to the regional average.

(In thousands)

For the years ended December 31, 2018 and 2017, GuildNet recorded premium capitation revenue of $3,016 and $5,274, respectively, related to the high-need/high-cost pool. At December 31, 2018 and 2017, receivables of $6,588 and $3,581, respectively, are included in due from third-party payors.

(c) Quality Incentive Payments

NYSDOH provides quality incentive payments for long-term care plans that meet certain quality indicators. NYSDOH established a quality pool that is distributed to plans based on certain quality indicators. Receivables for quality incentives are included in due from third-party payors.

(d) OMIG Audits

OMIG conducts audits of GuildNet's members for capitation paid for retroactively disenrolled members, deceased members, noneligible members, and other erroneous payments made to GuildNet. An estimated liability related to OMIG audits is included in due to third-party payors.

(e) Changes in Estimates

In 2018 and 2017, respectively, GuildNet recorded an increase in the operating loss of $12,398 and $8,402 related to changes to estimates for prior years for settlements and to reflect the most recent information available.

(f) Quality Incentive Vital Access Provider Pool

NYSDOH QIVAPP provides additional funding to personal care and home health aide providers that are compliant with Wage Parity statutory requirements and meet pool distribution standards. The QIVAPP funds are paid to MLTC plans, which are then required to distribute the funds to their qualifying vendor providers. The funds are passed through GuildNet and are not included in premium capitation revenue or expense. Below are the activities and balances for 2018 and 2017:

	2018	2017
Beginning balance	$ 8,069	—
Cash received for providers	5,876	16,291
Cash disbursements to providers	(13,945)	(8,222)
Due to providers	$ —	8,069

(g) Minimum Wage Adjustment

GuildNet received funding from the NYSDOH for minimum wage for the year ended December 31, 2018 and the nine-month period from April 1, 2017 to December 31, 2017, of which $5,242 and $12,565 is included in due to third-party payors and due to providers in the accompanying consolidated balance sheets at December 31, 2018 and 2017, respectively.

(h) Litigation

LGI is subject to various legal proceedings, and claims that arise in the ordinary course of business, including failure to timely or appropriately pay or administer claims and minimum wage distributions.

(Continued)

(In thousands)

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 was frozen as of June 30, 2011, 2010, and 2007, respectively.

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, 2018:

		Bargaining	Non-Bargaining	Lighthouse Retirement Plan
Projected benefit obligation	$	(24,713)	(26,775)	(41,538)
Plan assets at fair value		15,567	21,582	28,106
Funded status recognized in the balance sheet as long-term liability	$	(9,146)	(5,193)	(13,432)
Pension cost	$	937	606	825
Employer contributions		2,207	—	1,320
Benefits paid		1,772	1,549	3,218
Increase (decrease) recognized in other changes in net assets without donor restrictions:				
Net actuarial loss	$	(1,639)	(883)	(1,771)
Impact of settlements		—	—	1,151
Amortization of net actuarial loss		799	777	216
	$	(840)	(106)	(404)
Amounts recognized in accumulated net assets without donor restrictions:				
Actuarial loss	$	(9,570)	(8,314)	(10,208)

Settlement calculations have been made under FASB ASC Subtopic 715-30 for the Lighthouse Retirement Plan as a result of the total lump sum benefits paid during 2018 exceeding the sum of the 2018 interest cost and service cost. Included in 2018 pension cost is a settlement loss of $970.

(In thousands)

The net actuarial loss for the plans that will be amortized from accumulated net assets without donor restrictions into net periodic pension cost in 2019 is as follows:

	Bargaining	Non-Bargaining	Lighthouse Retirement Plan
$	(799)	(777)	(216)

The following table sets forth the key actuarial assumptions used by the plans as of and for the year ended December 31, 2018:

	Bargaining	Non-Bargaining	Lighthouse Retirement Plan
Weighted average assumptions used for net pension cost:			
Discount rate	3.35 %	3.30 %	3.45 %
Expected return on plan assets	6.75	5.75	6.75
Rate of compensation increase	N/A	N/A	N/A
Discount rate used to calculate the effect of plan settlement as of December 31, 2018 (Lighthouse Retirement Plan)	N/A	N/A	4.10 %
Weighted average assumptions used for pension obligations:			
Discount rate	4.05 %	4.00 %	4.10 %
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A

The following table sets forth the plans' funded status under U.S. GAAP and amounts recognized in the consolidated balance sheets as of and for the year ended December 31, 2017:

		Bargaining	Non-Bargaining	Lighthouse Retirement Plan
Projected benefit obligation	$	(26,237)	(29,106)	(50,406)
Plan assets at fair value		16,661	24,625	36,884
Funded status recognized in the balance sheet as long-term liability	$	(9,576)	(4,481)	(13,522)

(In thousands)

		Bargaining	Non-Bargaining	Lighthouse Retirement Plan
Pension cost	$	1,936	1,281	178
Employer contributions		734	—	1,425
Benefits paid		752	758	3,266
Increase (decrease) recognized in other changes in net assets without donor restrictions:				
Net actuarial (loss) gain	$	(898)	(413)	1,093
Impact of settlements		579	350	—
Amortization of net actuarial loss		926	886	310
	$	607	823	1,403
Amounts recognized in accumulated net assets without donor restrictions:				
Actuarial loss	$	(8,730)	(8,208)	(9,804)

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 2017 exceeding the sum of the 2017 interest cost and service cost. Included in 2017 pension cost is a settlement loss of $639 for the Bargaining Plan and $474 for the Non-Bargaining Plan.

(In thousands)

The following table sets forth the key actuarial assumptions used by the plans as of and for the year ended December 31, 2017:

	Bargaining	Non-Bargaining	Lighthouse Retirement Plan
Weighted average assumptions used for net pension cost:			
Discount rate	3.75 %	3.70 %	3.90 %
Expected return on plan assets	6.00	5.75	6.75
Rate of compensation increase	N/A	N/A	N/A
Discount rate used to calculate the effect of plan settlement as of June 30, 2017 (Bargaining) and December 31, 2017 (Non-Bargaining)	3.50 %	3.30 %	N/A
Weighted average assumptions used for pension obligations:			
Discount rate	3.35 %	3.30 %	3.45 %
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A

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			
	2018		2017	
	Total	Level 2	Total	Level 3
Assets:				
Common collective trust	$ 15,319	15,319	15,950	15,950
Total investments measured at fair value	15,319	$ 15,319	15,950	$ 15,950
Alternative investments measured at NAV (or equivalent)	233		656	
Net accrued income and expenses	15		55	
Total	$ 15,567		16,661	

(In thousands)

For the year ended December 31, 2017, the Bargaining plan purchased $13,964 and had unrealized gains of $1,986 related to Level 3 assets. The unrealized gains for the period are all related to Level 3 assets held at the reporting date.

	Non-Bargaining			
	2018		2017	
	Total	Level 2	Total	Level 3
Assets:				
Common collective trust	$ 21,127	21,127	23,398	23,398
Total investments measured at fair value	21,127	$ 21,127	23,398	$ 23,398
Alternative investments measured at NAV (or equivalent)	443		1,120	
Net accrued income and expenses	12		107	
Total	$ 21,582		24,625	

For the year ended December 31, 2017, the Non-Bargaining plan purchased $21,777 and had unrealized gains of $2,221 related to Level 3 assets. The unrealized gains for the period are all related to Level 3 assets held at the reporting date.

	2018		
	Lighthouse Retirement Plan		
	Total	Level 1	Level 2
Assets:			
Cash and cash equivalents	$ 4	4	—
Equity securities	2	2	—
Common collective trust	27,909	—	27,909
Total investments measured at fair value	27,915	$ 6	27,909
Alternative investments measured at NAV (or equivalent)	59		
Net accrued income and expenses	132		
Total	$ 28,106		

(In thousands)

	2017		
	Lighthouse Retirement Plan		
	Total	**Level 1**	**Level 3**
Assets:			
Cash and cash equivalents	$ 19	19	—
Equity securities	2	2	—
Common collective trust	36,775	—	36,775
Total investments measured at fair value	36,796	$ 21	36,775
Alternative investments measured at NAV (or equivalent)	82		
Net accrued income and expenses	6		
Total	$ 36,884		

For the year ended December 31, 2017, the Lighthouse Retirement Plan had unrealized gains of $3,966, which were all related to Level 3 assets held at the reporting date.

Plans' Assets – Alternative Investments

	2018				
	Bargaining	**Non-Bargaining**	**Lighthouse retirement plan**	**Redemption frequency**	**Redemption notice period**
Multistrategy hedge (a)	$ 214	412	—	Semiannually	90 Days
Private equity (c)	19	31	—	Illiquid	—
Limited partnership (d)	—	—	59	Quarterly	0–60 days
Total	$ 233	443	59		

	2017				
	Bargaining	**Non-Bargaining**	**Lighthouse retirement plan**	**Redemption frequency**	**Redemption notice period**
Multistrategy hedge (a)	$ 253	486	—	Semiannually	90 Days
Multistrategy hedge (a)	309	531	—	Quarterly	90 Days
U.S. small-mid cap/equity hedge (b)	76	73	82	Quarterly	0–60 Days
Private equity (c)	18	30	—	Illiquid	—
Total	$ 656	1,120	82		

There are no unfunded commitments as of December 31, 2018 or 2017.

a. *Multistrategy hedge* – 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 hedge* – 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.

d. *Limited partnership* – Investments are primarily in marketable equity securities; debt instruments, convertible securities; options, warrants, futures, swaps, and other derivatives; and nonpublic securities for the benefit of tax exempt U.S. persons.

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 target plan asset allocation for the Bargaining plan is 60% equity, 32% fixed income, and 8% alternative investments. The target plan asset allocation for the Non-Bargaining plan is 37% equity, 60% fixed income, and 3% alternative investments.

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. The target plan asset allocation for the Lighthouse retirement plan is 60% equity, 32% fixed income, and 8% alternative investments.

(In thousands)

(i) Cash Flows

Contribution

The Bargaining and Non-Bargaining pension plans are on a June 30 fiscal year-end. The Lighthouse Retirement Plan is on a December 31 calendar year-end. The Guild does not anticipate making contributions in 2019 for the Non-Bargaining Plan due to the preexisting funding balance. The Guild is required to make quarterly contributions of $321 and $243 in 2019 for the Bargaining and Lighthouse Retirement plans, respectively.

Estimated Future Benefit Payments

Benefit payments are expected to be paid as follows:

		Bargaining	Non-Bargaining	Lighthouse retirement plan
Fiscal years ending December 31:				
2019	$	2,896	3,746	3,157
2020		1,938	2,232	3,141
2021		1,882	2,131	3,165
2022		1,739	1,880	3,106
2023		1,700	1,847	3,028
2024–2028		7,673	8,521	14,089

(b) Defined-Contribution Plan

LGI Services, LLC has a 403(b) plan, a defined-contribution plan, for all eligible employees. The expense for the years ended December 31, 2018 and 2017 was $2,107 and $2,991, respectively.

(In thousands)

(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 consolidated balance sheets as of December 31, 2018 and 2017:

		2018	2017
Benefit obligation	$	(979)	(1,712)
Fair value of plan assets		—	—
Funded status	$	(979)	(1,712)
Amounts recognized in the consolidated balance sheets:			
Current liability	$	(67)	(125)
Long-term liability		(912)	(1,587)
	$	(979)	(1,712)
Net periodic benefit income	$	236	58
Employer contributions		92	78
Benefits paid		94	80
Increase (decrease) recognized in other changes in net assets without donor restrictions:			
Net actuarial gain (loss)	$	299	(51)
Amortization of transition obligation		23	25
Prior service credit		170	—
Effect of curtailment		—	7
Amortization of net actuarial gain		(87)	(86)
	$	405	(105)
Amounts recognized in accumulated net assets without donor restrictions:			
Transition obligation	$	—	(22)
Prior service credit		170	—
Actuarial gain		1,410	1,197
	$	1,580	1,175

The net actuarial gain and prior service credit that will be amortized from net assets without donor restrictions into net periodic benefit cost in 2019 are $131 and $36, respectively.

(In thousands)

During 2018, 121 active participants terminated from the Bargaining unit plan prior to being eligible for postretirement healthcare benefits, resulting in a decrease in expected future working lifetime of approximately 53%. This event has been accounted for as a curtailment and resulted in a decrease in the benefit obligation of approximately $266 for the year ended December 31, 2018.

During 2017, 67 active participants terminated from the Bargaining unit plan prior to being eligible for postretirement healthcare benefits, resulting in a decrease in expected future working lifetime of approximately 17%. This event has been accounted for as a curtailment and resulted in a decrease in the benefit obligation of approximately $105 for the year ended December 31, 2017.

Weighted average assumptions as of December 31, 2018 and 2017:

	2018	2017
Discount rate:		
Used for benefit obligation – Bargaining	4.20 %	3.55 %
Used for benefit obligation – Non-Bargaining	4.00	3.30
Used for net benefit cost – Bargaining	3.55	4.00
Used for net benefit cost – Non-Bargaining	3.30	3.80
Healthcare cost trend assumed for next year	6.10	5.80

As of December 31, 2018 and June 30, 2017, the liability for the Bargaining plan was remeasured at 4.2% and 3.8%, respectively, as a result of the curtailment.

The healthcare cost trend rate was assumed to change annually until the ultimate rate of 4.2% is reached in 2091 for the Bargaining plan and 4.3% is reached in 2090 for the Non-Bargaining plan.

The healthcare cost trend rate assumption effects 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, 2018 and 2017 as follows:

	Accumulated postretirement benefit obligation		Service cost plus interest cost	
	2018	2017	2018	2017
At trend + 1%	$ 8	26	1	1
At trend – 1%	(7)	(24)	(1)	(1)

The expected contribution in 2019 is $67.

(In thousands)

Benefit payments expected to be paid are as follows:

2019	$	67
2020		69
2021		69
2022		67
2023		67
2024–2028		327

(13) Regulatory Requirements

New York State Regulatory Requirements

Under the laws of the State of New York Part 98 of Title 10 New York Codes, Rules and Regulations, GuildNet is required to maintain a contingent reserve that is calculated as 5.00% of premium revenue for MLTCP and MAP and 6.25% for FIDA for the current year. Such contingent reserve requirements shall be deemed to have been met if the surplus of GuildNet, based on admitted assets, equals or exceeds the applicable contingent reserve requirements for such calendar year.

In addition, GuildNet is required to maintain an escrow account for the protection of enrollees. The escrow account shall be adjusted annually by the last day of March of each calendar year and shall be equal to the greater of 5% of the unaudited management projections of medical expenses for the subsequent year or $100,000.

New York State Department of Financial Services requires the escrow deposit to be invested in accordance with Section 1404(a) of the New York Insurance Law. Since GuildNet has withdrawn from all MLTC, FIDA and MAP lines of business effective December 31, 2018, the requirement for escrow deposits does not apply. GuildNet has requested and is approved for withdrawal of escrow funds to meet obligations during the wind-down process. As of April 11, 2019, $12,517 has been released from the escrow account.

(In thousands)

(a) Contingent Reserve

		2018	2017
MLTCP and MAP:			
2018 and 2017 total premium revenue, respectively	$	444,602	753,986
		5 %	5 %
		22,230	37,699
FIDA:			
2018 and 2017 total premium revenue, respectively		36,623	62,801
		6.25 %	6.25 %
		2,289	3,925
Total contingent reserve	$	24,519	41,624

(b) CMS Regulatory Requirements

Organizations contracting with CMS for Medicare Advantage, prescription drugs, and certain other programs are required to satisfy all applicable state licensure and state and CMS fiscal soundness requirements. Those requirements help protect Medicare beneficiaries from potential harm and make sure that organizations contracting with CMS are financially viable. CMS monitors an organization's compliance with fiscal soundness requirements.

The following specific condition results in a "does not meet" fiscal soundness review: a negative net income (loss), which is greater than one-half of the entity's net worth. GuildNet is not in compliance with this condition because during 2018 as it incurred a net loss, which is greater than one-half of GuildNet's total net worth at December 31, 2018.

(14) Lease Commitments

GuildNet and H.F.C. rent space at various locations. In February 2016, LGI signed a 10-year lease agreement for additional space in New York City. Rent expense is recorded based on the terms of the various lease agreements. Rent expense, including in-kind rent, was $5,851 and $6,635 for 2018 and 2017, respectively.

(Continued)

(In thousands)

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

2019	$	2,953
2020		2,868
2021		2,886
2022		3,002
2023		3,096
Thereafter		9,266
Total lease commitments	$	24,071

In 2018 and 2017, GuildNet decided to cease use one and two leased facilities, respectively. The remaining lease obligation for these cease use locations of $4,258 and $3,132 at December 31, 2018 and 2017, respectively, is recorded as a liability in accounts payable and accrued expenses and other liabilities.

(15) 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% to 5.8%, LGI determined the present value of its future irrevocable interest in these trusts to be $3,297 and $4,268 at December 31, 2018 and 2017, respectively. The amounts are recorded in other assets.

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 3 investments. Changes to the estimated net present value of income to be received are recognized as gains or losses in net assets with donor restrictions in the accompanying consolidated statement of operations and changes in net assets. The present value of the trust funds as of December 31, 2018 and 2017 is $10,493 and $11,491, respectively, and is recorded in assets limited or restricted as to use.

(In thousands)

(16) Split-Interest Agreements

The Guild and Lighthouse have numerous split-interest agreements, which include various charitable gift annuities and beneficial interests in trusts (note 15). The interest rates used to determine the discount range from 2.0% to 7.25%. As of December 31, 2018 and 2017, the consolidated statements of operations and changes in net assets and the consolidated balance sheets include the various split-interest agreements at fair value as follows:

		2018	
		Charitable gift annuities – net assets without donor restrictions	**Trusts – net assets with donor restrictions**
Consolidated statements of operations and changes in net assets:			
Change in value of annuity obligations	$	(297)	—
Actuarial gain on beneficial interest in trusts		—	(172)
Consolidated balance sheets:			
Investments	$	4,797	—
Beneficial interest in irrevocable trusts (other assets)		—	3,297
Annuity obligations		2,558	—

		2017	
		Charitable gift annuities – net assets without donor restrictions	**Trusts – net assets with donor restrictions**
Consolidated statements of operations and changes in net assets:			
Change in value of annuity obligations	$	(394)	—
Actuarial gain on beneficial interest in trusts		—	404
Consolidated balance sheets:			
Investments	$	5,360	—
Beneficial interest in irrevocable trusts (other assets)		—	4,268
Annuity obligations		2,812	—

(In thousands)

(17) 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 revenue from third-party payors and others as of and for the years ended December 31, 2018 and 2017 is as follows:

	2018		2017	
	Receivables	**Revenue**	**Receivables**	**Revenue**
Medicaid	76 %	93 %	72 %	94 %
Medicare	2	4	2	4
Other third-party payors	22	3	26	2

LGI's cash accounts are in several financial institutions and at times they exceed the Federal Deposit Insurance Corporation insurance limits.

Approximately 38% of LGI's employees are union employees who are covered under the terms of two collective bargaining agreements.

(18) Claims Payable

GuildNet engaged the services of an actuarial consultant to value its reported but not paid and IBNR liability as of December 31, 2018 and 2017, respectively. GuildNet furnished a listing to the actuarial consultant of all claims paid by GuildNet by date of service through December 2018 and 2017, respectively. The actuarial 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.

The following table shows the components of the change in total accrued claims payable for the years ended December 31, 2018 and 2017:

	2018	2017
Claims payable, beginning of period	$ 84,706	174,112
Incurred related to:		
Current year	502,785	761,915
Prior year	(7,240)	(38,652)
Total incurred	495,545	723,263

(In thousands)

		2018	2017
Paid related to:			
Current year	$	(461,071)	(678,401)
Prior year		(76,608)	(134,268)
Total paid		(537,679)	(812,669)
Claims payable, end of period	$	42,572	84,706

Reserves for unpaid claims attributable to prior years' incurred claims decreased by $7,240 and $38,652, respectively, in 2018 and 2017. The changes are generally the result of ongoing analysis of recent loss development trends, and the actual payments in 2018 for 2017 and 2017 for 2016 were lower than anticipated due to the initiatives to control utilization of personal care attendant services and a lower than expected share of nursing home membership.

(19) Reinsurance

GuildNet has an excess loss reinsurance agreement for its MAP and FIDA Plans with a commercial insurance company. This agreement provides reinsurance for hospital inpatient acute and subacute care expenses. The annual deductible per member is $250 as of December 31, 2018 and 2017, with a maximum payable of $2,000 as of December 31, 2018 and 2017. The reinsurance premium of $128 and $142, respectively, for the years ended December 31, 2018 and 2017 is included in managed care expense.

(20) Rental Income and Sale of Property

The Guild leases space under a noncancelable lease. The noncancelable lease expires in February 2024 and future annual rental income is approximately $411. Rental income for the years ended December 31, 2018 and 2017 was $522 and $166, respectively.

Sale of 65th Street Property

On February 16, 2016, JGB entered into a purchase and sale agreement to sell its real property (land, commercial building, and improvements) located at 15 W 65th Street, Manhattan to 15 West 65 Fee LLC (Purchaser) for $157,000 (Purchase Price). LGI received a deposit of $40,000 in 2016.

The closing of the sale of property took place on November 15, 2017 and the Purchase Price was reduced by $10,000 to $147,000. $15,000 of the Purchase Price was received in the form of a passive noncontrolling equity interest in the residential and mixed-use condominium project being developed by West 66th Investor LLC, an affiliate of Purchaser. The equity interest offers a preferred return of 6% per annum, compounded quarterly, on a pari passu basis with the return of equity, with a preferred return not to exceed 9% thereon, payable to all other equity holders in the development project.

The net book value of the property on the date of closing was $10,800 and the value related to the equity interest mentioned above was $1,100. Per ASC Subtopic 360-20, such value is deemed the cost basis of the investment in the equity interest, which is recorded in other assets.

(In thousands)

The net gain on the sale for the year ended December 31, 2017 is $120,655 after closing costs and excludes the potential deferred gain on the equity interest. The balance of the net proceeds of $90,800 was received in December 2017.

(21) Liquidity and Availability of Resources

LGI and GuildNet manage their liquidity by developing and adopting annual operating and capital budgets that provide funds for general expenditures. Cash in excess of daily requirements is invested in investments. Cash and cash equivalents, investments, and current receivables are the primary liquid resources. GuildNet has requested release of the statutory escrow investments from the NYSDOH and expects these funds to be released in 2019. See note 13. LGI also has $5,000 available under a revolving note as of December 31, 2018. The revolving note expires on July 1, 2019. See note 6.

GuildNet's licenses with the state of New York require segregation of its assets. Therefore, LGI manages its cash, investments, and other resources in separate cash and investment accounts. The table below includes the financial assets and liquidity resources at December 31, 2018 available to fund general expenditures due within one year, for GuildNet on a stand-alone basis, and all other LGI operations.

	LGI excluding GuildNet	GuildNet	Total
Cash and cash equivalents	$ 3,412	14,024	17,436
Investments, current portion	328,776	—	328,776
Due from third-party payors and other	4,528	12,088	16,616
Statutory escrow	—	32,547	32,547
	$ 336,716	58,659	395,375

(In thousands)

(22) Expenses by Functional and Natural Classification

The costs of providing the various program services and other activities have been summarized below. Managed care includes GuildNet. Provider services includes Rehab, J.G.B. Education Services, MHS, NAPVI, and GBGB. Expenses directly attributable to a specific functional area of LGI (e.g., managed care or provider services) are reported as expenses of those functional areas. The majority of expenses are directly identified with the program or supporting services to which they relate and are charged accordingly. Other direct expenses have been allocated to the programs on the basis of square footage of office space occupied, time reports, and other bases determined by the management of LGI. Expenses by functional classification for the years ended December 31, 2018 and 2017 consist of the following:

	2018				2017
	Managed care	Provider services	Management and general	Total	Total
Medical benefits	$ 499,568	—	—	499,568	737,021
Salaries and benefits	32,624	17,101	31,826	81,551	81,229
Purchased services and other	66	4,629	25,722	30,417	38,977
Rent and occupancy	—	963	7,156	8,119	8,932
Depreciation and amortization	—	1,493	13,003	14,496	14,706
Interest	—	1,406	7,625	9,031	7,760
Impairment of fixed assets	—	—	45,243	45,243	—
Total	$ 532,258	25,592	130,575	688,425	888,625

Schedule 1

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidating Balance Sheet

December 31, 2018

(In thousands)

Assets	**Lighthouse Guild International, Inc.**	**Jewish Guild Healthcare & Affiliate**	**Lighthouse International & Affiliate**	**GuildNet, Inc.**	**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**	**2018 Total**
Current assets:											
Cash and cash equivalents	$ 91	80	1,188	14,024	1,325	418	282	6	22	—	17,436
Investments, current portion	318,532	5,800	4,140	—	—	—	—	—	304	—	328,776
Due from third-party payors and other, net	—	432	205	12,088	3,343	—	548	—	—	—	16,616
Prepaid expenses and other current assets	5,830	311	323	161	90	—	2	—	—	—	6,717
Statutory escrow	—	—	—	32,547	—	—	—	—	—	—	32,547
Due from LGI endowment investment pool	—	8,332	16,852	—	—	—	—	—	—	(25,184)	—
Total current assets	324,453	14,955	22,708	58,820	4,758	418	832	6	326	(25,184)	402,092
Assets limited or restricted as to use:											
Endowment investments	25,184	—	—	—	—	—	—	—	131	—	25,315
Beneficial interest in perpetual trusts	—	503	9,990	—	—	—	—	—	—	—	10,493
Total assets limited or restricted as to use	25,184	503	9,990	—	—	—	—	—	131	—	35,808
Investments, net of current portion	32,418	—	—	—	—	—	—	—	—	—	32,418
Fixed assets, net	201,034	53	51	—	395	—	108	—	—	—	201,641
Other assets	9,615	1,420	2,580	—	—	—	—	—	—	—	13,615
Total assets	$ 592,704	16,931	35,329	58,820	5,153	418	940	6	457	(25,184)	685,574
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued expenses	$ 7,553	4,323	1,105	4,062	373	1	3	—	—	—	17,420
Claims payable	—	—	—	42,572	—	—	—	—	—	—	42,572
Accrued salaries and related expenses	585	7,915	—	—	—	—	—	—	—	—	8,500
Due to third-party payors, net	—	15	1	19,945	63	362	87	—	—	—	20,473
Current portion of notes payable	30,000	—	—	—	—	—	—	—	—	—	30,000
Current portion of capital lease payable	675	—	—	—	—	—	—	—	—	—	675
Current portion of accrued pension and postretirement medical benefits	—	67	—	—	—	—	—	—	—	—	67
Current portion of annuity obligations	—	207	320	—	—	—	—	—	—	—	527
Other current liabilities	2,090	219	(25)	366	—	—	228	—	—	—	2,878
Due to JGB and LHI endowment fund	25,184	—	—	—	—	—	—	—	—	(25,184)	—
Total current liabilities	66,087	12,746	1,401	66,945	436	363	318	—	—	(25,184)	123,112
Long-term liabilities:											
Notes payable, net of current portion	74,300	—	—	—	—	—	—	—	—	—	74,300
Capital lease payable, net of current portion	191,431	—	—	—	—	—	—	—	—	—	191,431
Accrued pension and postretirement medical benefits, net of current portion	—	15,251	13,432	—	—	—	—	—	—	—	28,683
Annuity obligations, net of current portion	—	933	1,098	—	—	—	—	—	—	—	2,031
Subordinated surplus note	—	—	—	47,089	—	—	—	—	—	(47,089)	—
Subordinated surplus note interest payable	—	—	—	4,964	—	—	—	—	—	(4,964)	—
Other liabilities	—	—	—	3,664	—	—	—	—	—	—	3,664
Due to (from) affiliates	378,852	(232,235)	(136,683)	21,989	91,229	31,390	30,947	1,428	2,879	(189,796)	—
Total liabilities	710,670	(203,305)	(120,752)	144,651	91,665	31,753	31,265	1,428	2,879	(267,033)	423,221
Net assets (deficit)	(117,966)	220,236	156,081	(85,831)	(86,512)	(31,335)	(30,325)	(1,422)	(2,422)	241,849	262,353
Total liabilities and net assets	$ 592,704	16,931	35,329	58,820	5,153	418	940	6	457	(25,184)	685,574

See accompanying independent auditors' report.

Schedule 2

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets

December 31, 2018

(In thousands)

	Lighthouse Guild International, Inc.	Jewish Guild Healthcare & Affiliate	Lighthouse International & Affiliate	GuildNet, Inc.	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.	Eliminations	2018 Total
Revenue and other support from operations:											
Management fees	$ —	56,360	—	—	—	—	—	—	—	(56,360)	—
Program revenue	—	616	2,109	481,225	—	2,602	—	—	—	—	486,552
Net patient service revenue	—	—	—	—	9,476	—	2,271	—	—	(395)	11,352
Provision for bad debts	—	—	452	—	(974)	10	(223)	—	(589)	—	(1,324)
Other revenue	534	2,570	9	347	759	15	2,186	—	—	(2,562)	3,858
Total revenue and other support from operations	534	59,546	2,570	481,572	9,261	2,627	4,234	—	(589)	(59,317)	500,438
Operating expenses:											
Program services:											
Managed care	—	32,690	—	532,179	—	—	—	—	—	(32,611)	532,258
Provider services	1,089	2,768	4,752	—	9,428	3,294	4,165	96	—	—	25,592
Total program services	1,089	35,458	4,752	532,179	9,428	3,294	4,165	96	—	(32,611)	557,850
Supporting services:											
Management and general	13,629	26,305	2,060	55,808	8,980	3,445	1,758	53	—	(26,706)	85,332
Total supporting services	13,629	26,305	2,060	55,808	8,980	3,445	1,758	53	—	(26,706)	85,332
Total operating expenses	14,718	61,763	6,812	587,987	18,408	6,739	5,923	149	—	(59,317)	643,182
Loss from operations before impairment of fixed assets	(14,184)	(2,217)	(4,242)	(106,415)	(9,147)	(4,112)	(1,689)	(149)	(589)	—	(142,744)
Impairment of fixed assets	(39,728)	(1)	—	(5,370)	—	(144)	—	—	—	—	(45,243)
Loss from operations	(53,912)	(2,218)	(4,242)	(111,785)	(9,147)	(4,256)	(1,689)	(149)	(589)	—	(187,987)
Nonoperating revenue, gains, and losses:											
Contributions and grants	1,379	113	237	—	348	12	4	103	1	—	2,197
Special events	72	—	—	—	—	—	—	—	—	—	72
Legacies and bequests	407	463	1,483	—	—	—	—	—	15	—	2,368
Interest and dividend income	6,118	451	345	1,563	2	—	—	—	4	—	8,483
Net realized and unrealized losses on investments	(29,527)	(1,403)	(1,637)	(1,074)	—	—	—	—	—	—	(33,641)
Distributions from perpetual trusts	—	44	402	—	—	—	—	—	—	—	446
Change in value of annuity obligations	—	(150)	(147)	—	—	—	—	—	—	—	(297)
Change in value of beneficial interest in trusts	—	(94)	(1,086)	—	—	—	—	—	10	—	(1,170)
Total nonoperating revenue, gains, and losses, net	(21,551)	(576)	(403)	489	350	12	4	103	30	—	(21,542)
Deficiency of revenue, gains, and losses over expenses before other changes	(75,463)	(2,794)	(4,645)	(111,296)	(8,797)	(4,244)	(1,685)	(46)	(559)	—	(209,529)
Other changes:											
Pension and postretirement benefit changes other than net periodic benefit cost	—	284	(1,229)	—	—	—	—	—	—	—	(945)
Reserve for affiliates	(40,327)	(9,452)	—	—	—	—	—	—	—	49,779	—
Change in net assets	(115,790)	(11,962)	(5,874)	(111,296)	(8,797)	(4,244)	(1,685)	(46)	(559)	49,779	(210,474)
Net assets (deficit), beginning of year	(2,176)	232,198	161,955	25,465	(77,715)	(27,091)	(28,640)	(1,376)	(1,863)	192,070	472,827
Net assets (deficit), end of year	$ (117,966)	220,236	156,081	(85,831)	(86,512)	(31,335)	(30,325)	(1,422)	(2,422)	241,849	262,353

See accompanying independent auditors' report.