LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Financial Statements and Schedules

December 31, 2017 and 2016

(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, 2017 and 2016, 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, 2017 and 2016, 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

Other Matters

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

KPMG LLP

May 14, 2018

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Balance Sheets

December 31, 2017 and 2016

(In thousands)

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	36,147	101,502
Investments, current portion (note 3)		478,968	278,130
Due from third-party payors and other, net of allowance for doubtful accounts of $4,012 and $5,975 in 2017 and 2016, respectively (notes 10 and 17)		20,032	37,470
Prepaid expenses and other current assets (note 4)		6,170	3,474
Total current assets		541,317	420,576
Assets limited or restricted as to use:			
Statutory escrow (notes 3 and 13)		51,892	51,348
Endowment investments (notes 3 and 9)		25,392	25,384
Beneficial interest in perpetual trusts (notes 3 and 15)		11,491	10,210
Total assets limited or restricted as to use		88,775	86,942
Investments, net of current portion (note 3)		14,363	98,078
Fixed assets, net (note 5)		257,385	252,721
Intangible asset, net (note 2)		3,035	6,214
Other assets (notes 4 and 15)		14,357	8,190
Total assets	$	919,232	872,721
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	17,276	15,371
Claims payable (note 18)		84,706	174,112
Accrued premium deficiency (note 2)		10,141	15,000
Accrued salaries and related expenses		6,649	6,911
Due to third-party payors, net (note 10)		3,229	2,100
Due to providers (note 10)		20,634	—
Current portion of capital lease payable (note 7)		643	680
Current portion of accrued pension and postretirement medical benefits (notes 11 and 12)		125	119
Current portion of annuity obligations (note 16)		572	583
Deposit liability (note 22)		—	40,000
Other current liabilities		2,244	2,505
Total current liabilities		146,219	257,381
Long-term liabilities:			
Note payable (note 6)		74,300	50,100
Capital lease payable, net of current portion (note 7)		192,117	192,804
Accrued pension and postretirement medical benefits, net of current portion (notes 11 and 12)		29,166	30,800
Annuity obligations, net of current portion (note 16)		2,240	2,391
Other liabilities		2,363	—
Total long-term liabilities		300,186	276,095
Total liabilities		446,405	533,476
Net assets:			
Unrestricted		378,351	232,713
Statutorily restricted (note 13)		41,624	56,380
Temporarily restricted (notes 8, 15, and 16)		15,969	14,558
Permanently restricted (notes 9 and 16)		36,883	35,594
Total net assets		472,827	339,245
Commitments and contingencies (notes 10 and 14)			
Total liabilities and net assets	$	919,232	872,721

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, 2017 and 2016

(In thousands)

	2017				2016			
	Unrestricted and Statutorily Restricted	Temporarily restricted	Permanently restricted	Total	Unrestricted and Statutorily Restricted	Temporarily restricted	Permanently restricted	Total
Revenue and other support from operations:								
Program revenue (note 2)	$ 822,675	—	—	822,675	1,123,825	—	—	1,123,825
Net patient service revenue	10,032	—	—	10,032	11,284	—	—	11,284
Provision for bad debts (note 2)	(1,094)	—	—	(1,094)	(374)	—	—	(374)
Other revenue (note 20)	1,109	—	—	1,109	1,524	—	—	1,524
Total revenue and other support from operations	832,722	—	—	832,722	1,136,259	—	—	1,136,259
Operating expenses:								
Program services:								
Managed care	772,733	—	—	772,733	1,128,826	—	—	1,128,826
Adult day healthcare	8,755	—	—	8,755	9,613	—	—	9,613
Clinical and rehabilitation	6,807	—	—	6,807	6,540	—	—	6,540
Behavioral health	4,167	—	—	4,167	5,055	—	—	5,055
Education	5,327	—	—	5,327	7,084	—	—	7,084
Other programs	4,229	—	—	4,229	1,815	—	—	1,815
Total program services	802,018	—	—	802,018	1,158,933	—	—	1,158,933
Supporting services:								
Management and general	84,561	—	—	84,561	89,688	—	—	89,688
Fund-raising	2,046	—	—	2,046	2,670	—	—	2,670
Total supporting services	86,607	—	—	86,607	92,358	—	—	92,358
Total operating expenses	888,625	—	—	888,625	1,251,291	—	—	1,251,291
Loss from operations before gain (loss) on sale/disposal of fixed assets	(55,903)	—	—	(55,903)	(115,032)	—	—	(115,032)
Gain (loss) on sale/disposal of fixed assets (note 20)	120,655	—	—	120,655	(25)	—	—	(25)
Gain (loss) from operations	64,752	—	—	64,752	(115,057)	—	—	(115,057)
Nonoperating revenue, gains, and losses:								
Contributions and grants	2,166	977	—	3,143	1,898	904	—	2,802
Special events, net	1,058	—	—	1,058	761	—	—	761
Legacies and bequests	4,498	823	—	5,321	3,972	1,558	—	5,530
Interest and dividend income (note 2(e))	6,963	438	1	7,402	5,779	555	1	6,335
Net realized and unrealized gains on investments	44,425	3,025	7	47,457	15,918	565	8	16,491
Distributions from perpetual trusts	407	23	—	430	436	29	—	465
Change in value of annuity obligations (note 16)	(394)	—	—	(394)	136	—	—	136
Change in value of beneficial interest in trusts (note 16)	—	404	1,281	1,685	—	132	(140)	(8)
Net assets released from restrictions (note 8)	4,279	(4,279)	—	—	4,377	(4,377)	—	—
Total nonoperating revenue, gains, and losses, net	63,402	1,411	1,289	66,102	33,277	(634)	(131)	32,512
Excess (deficiency) of revenue, gains, and losses over expenses before other changes	128,154	1,411	1,289	130,854	(81,780)	(634)	(131)	(82,545)
Other changes:								
Reclassification	—	—	—	—	—	(3,609)	3,609	—
Pension and postretirement benefit changes other than net periodic benefit cost (notes 11 and 12)	2,728	—	—	2,728	262	—	—	262
Change in net assets	130,882	1,411	1,289	133,582	(81,518)	(4,243)	3,478	(82,283)
Net assets, beginning of year	289,093	14,558	35,594	339,245	370,611	18,801	32,116	421,528
Net assets, end of year	$ 419,975	15,969	36,883	472,827	289,093	14,558	35,594	339,245

See accompanying notes to consolidated financial statements.

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

(In thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	133,582	(82,283)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Contributions restricted for annuity agreements		(6)	(17)
Depreciation and amortization		11,527	8,408
Amortization and impairment of intangible asset		3,179	11,396
Bond discount amortization		188	305
Provision for bad debts		1,094	2,140
Pension and postretirement benefit changes other than net periodic benefit cost		(2,728)	(262)
Net realized and unrealized gains on investments		(47,457)	(16,491)
(Gain) loss on sale/disposal of fixed assets		(120,655)	25
Change in value of annuity obligations		394	(136)
Change in value of beneficial interest in irrevocable trusts		(404)	(132)
Change in value of beneficial interest in perpetual trusts		(1,281)	140
Changes in operating assets and liabilities:			
Due from third-party payors and other		16,344	34,639
Prepaid expenses, other current assets, and other assets		(8,459)	(765)
Accounts payable and accrued expenses		2,868	1,473
Accrued claims payable		(89,406)	41,427
Accrued premium deficiency		(4,859)	(3,673)
Accrued salaries and related expenses		(262)	(169)
Accrued pension and postretirement medical benefits		1,100	1,342
Due to third-party payors		1,129	1,653
Due to providers		20,634	—
Other liabilities		2,102	2,362
Net cash (used in) provided by operating activities		(81,376)	1,382
Cash flows from investing activities:			
Purchases of fixed assets		(27,930)	(40,466)
Proceeds from sale of fixed assets		91,431	40,000
Proceeds from sales of investments		125,294	476,073
Proceeds from sales of assets limited or restricted as to use		51,670	55,702
Purchases of investments		(194,694)	(431,710)
Purchases of assets limited or restricted as to use		(52,676)	(66,408)
Proceeds from irrevocable trust		—	780
Purchase of intangible asset		—	(1,320)
Net cash (used in) provided by investing activities		(6,905)	32,651
Cash flows from financing activities:			
Proceeds from contributions restricted for annuity obligations		10	56
Proceeds from construction loan		24,200	50,100
Payments on capital leases		(724)	(451)
Payments of annuity obligations		(560)	(619)
Net cash provided by financing activities		22,926	49,086
Net (decrease) increase in cash and cash equivalents		(65,355)	83,119
Cash, and cash equivalents beginning of year		101,502	18,383
Cash, and cash equivalents end of year	$	36,147	101,502
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	8,282	3,474
Capital lease obligation incurred		—	193,411
Fixed assets accrued in accounts payable		5,070	6,033
Investment received from irrevocable trust		—	3,043

See accompanying notes to consolidated financial statements.

(1) Nature of Organization

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

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

Lighthouse Guild International, Inc. 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., 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, Inc. (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.

During 2017, GuildNet requested and received approval from the New York State Department of Health (NYSDOH) to cease providing MLTCP services in Nassau, Suffolk, and Westchester Counties, and those members have transferred to other MLTC plans.

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

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

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.

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. In May 2016, MHS closed one of its day treatment programs. 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.

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.

The Lighthouse is the sole member of Lighthouse International Real Estate Holdings, LLC (the LLC), a Delaware limited liability company, which has no activity for 2017 or 2016.

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. Interest and dividend income is recorded net of investment expenses of $1,700 and $1,646 for the years ended December 31, 2017 and 2016, respectively.

(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 input 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 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, 2017, as compared to those used at December 31, 2016.

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, 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, 2017 and 2016.

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

(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. There have not been any impairments of fixed assets for the years ended December 31, 2017 or 2016.

(m) Intangible Asset

Intangible asset represents the purchase of customer relationships from another health plan and is recorded at cost. In December 2015, GuildNet paid $16,290. In 2016, the final number of customer relationships was reconciled and GuildNet paid an additional $1,320 for the purchase of customer relationships. The effective date of the customer relationships was January 1, 2016 and the intangible asset is being amortized over the estimated useful life of the customer relationships. The intangible asset was evaluated for impairment at December 31, 2017 and 2016, respectively, and an impairment of $2,143 and $8,880 was recognized for the years ended December 31, 2017 and 2016, respectively. Amortization expense was $1,036 and $2,516 for the years ended December 31, 2017 and 2016, respectively. Estimated amortization expense for the years 2018 and 2019 is $1,518 each.

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

Due to/from third-party payors represents amounts due to/from the NYSDOH and the Centers for Medicare and Medicaid Services (CMS) for capitation payments, retroactive rate adjustments, quality incentive payments, Health Recruitment and Retention (R&R) funds, high cost/high needs pool, payable for minimum loss ratio requirement, premium capitation payments received for disenrolled members, and the NYSDOH's Independent Office of Medicaid Inspector General (OMIG) settlements. Also included are amounts to/from the New York City Department of Education. Due to providers includes Quality Incentive Vital Access Provider Pool (QIVAPP) and payable under minimum wage adjustments (note 10).

(o) 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.

(p) Accrued Premium Deficiency

U.S. GAAP requires losses under prepaid healthcare services contracts to be recognized when it is probable that expected future healthcare costs and maintenance costs under a group of existing contracts will exceed anticipated future premiums and stop-loss insurance recoveries on those contracts. At December 31, 2017 and 2016, GuildNet has estimated that losses will be incurred for its MLTCP program through the term of the applicable contract. As a result, GuildNet has recorded a premium deficiency accrual of $10,141 and $15,000, respectively, in the accompanying consolidated balance sheets at December 31, 2017 and 2016. 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. Due to the uncertainties inherent in the estimation process for the accrued premium deficiency and New York State's and CMS' ability to change rates on a retroactive basis, these estimates may change by a material amount in the near term. Management believes that the methods employed to estimate accrued premium deficiency are reasonable at December 31, 2017 and 2016.

(q) Annuity Obligations

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

(Continued)

(r) Net Assets

Net assets are classified as amounts having no restrictions as to use or purpose imposed by donors and available for operations (unrestricted) and to meet regulatory requirements (statutorily restricted). See note 13 for statutory reserve. Temporarily restricted net assets are those funds restricted by donors to be used for a specified time period or purpose. Permanently restricted funds are to be maintained in perpetuity at the behest of the donor, and the income generated by such funds is utilized for operating purposes except if otherwise indicated by the donor.

(s) Program and Patient Service Revenue

Program and patient service revenue include premium capitation payments, outpatient fees, fee-for-service reimbursements, and tuition fees that are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the programs and services provided are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and exclusion from the Medicare and Medicaid programs. Program revenue includes premium capitation payments of $810,156 and $1,109,330 for the years ended December 31, 2017 and 2016, respectively. Patient service revenue net of contractual allowances and discounts includes third-party payors of $9,837 and $11,247 and self-pay of $195 and $37 for the years ended December 31, 2017 and 2016, 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.

(t) Functional Allocation of Expenses

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

(u) 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.

(Continued)

(v) 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, pension and postretirement benefit changes other that net periodic benefit cost, and net assets released from restrictions.

(w) 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 either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Special events revenue is recorded net of direct costs of $359 and $566 for the years ended December 31, 2017 and 2016, respectively.

(x) 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, 2017 and 2016, respectively, $15 and $27 are recorded as contributions and grants revenue in the consolidated statements of operations and changes in net assets.

(y) 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.

(z) Advertising Costs

Advertising costs are expensed as incurred. LGI incurred advertising costs of $406 and $1,747 in 2017 and 2016, respectively, which are included in management and general expense.

(aa) 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 one percent. 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 $2,402 for the year ended December 31, 2017. This interest payable and expense is eliminated in consolidation.

(Continued)

(bb) Income Taxes

U.S. GAAP requires LGI to evaluate tax positions taken or expected to be taken to determine whether the tax positions are "more likely than not" of being sustained by the applicable tax authority based upon the technical merits of the position. LGI recognizes the effect of tax positions only if they are more likely than not of being sustained. Periods ending December 31, 2013 or June 30, 2013, 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. Management of LGI's preliminary assessment is that there is no impact on the consolidated financial statements as of December 31, 2017 but is currently assessing the overall impact of the Act and its impact on the consolidated financial statements, including for 2018.

(cc) Recently Adopted Accounting Standards

In January 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. ASU No. 2016-01 makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU No. 2016-01 requires that most equity instruments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU No. 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounting for under the equity method. The new standard also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. This ASU is effective for fiscal years beginning after December 15, 2018. In addition, entities that are not public business entities, such as LGI, may early adopt provisions of the standard that eliminate certain previously required fair value disclosures. LGI elected to early adopt the fair value disclosures provision of the ASU in 2016 to simplify the reporting for financial instruments and, as such, is no longer required to disclose the fair value of financial instruments measured at amortized cost. LGI expects to adopt the remaining provisions in 2019.

(dd) Subsequent Events

Subsequent events have been evaluated through May 14, 2018, which is the date the consolidated financial statements were available to be issued.

(In thousands)

(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:

	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. all 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	—	—
Multi-Strategy 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

	2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments, including endowments:				
Cash and cash equivalents	$ 13,039	13,039	—	—
Money market mutual funds	1,709	1,709	—	—
Certificate of deposit	70	70	—	—
Equity securities:				
International	442	442	—	—
U.S. large-cap	13,826	13,826	—	—
U.S. small mid-cap	3,680	3,680	—	—
Total equity securities	17,948	17,948	—	—

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

(In thousands)

	2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Mutual funds:				
Fixed income	$ 33,621	33,621	—	—
U.S. all cap equity	35,465	35,465	—	—
U.S. large cap equity	21,465	21,465	—	—
International equity	46,224	46,224	—	—
Balanced/asset allocation	343	343	—	—
Total mutual funds	137,118	137,118	—	—
Exchange-traded funds:				
Fixed income	5,382	5,382	—	—
U.S. large-cap equity	31,505	31,505	—	—
U.S. small mid-cap equity	6,628	6,628	—	—
Commodities	3,771	3,771	—	—
Emerging markets	8,466	8,466	—	—
International equity	18,215	18,215	—	—
Total exchange-traded funds	73,967	73,967	—	—
Fixed income:				
Corporate bonds	49	—	49	—
Municipal bonds	210	—	210	—
U.S. government securities	723	—	723	—
International bonds	2	—	2	—
Total fixed income	984	—	984	—
Total investments measured at fair value	244,835	243,851	984	—
Alternative investments measured at net asset value (or equivalent)	156,757			
Total investments, including endowments	$ 401,592			
Assets limited as to use:				
Money market mutual funds	$ 1,253	1,253	—	—
U.S. government securities	29,413	—	29,413	—
U.S. corporate bonds	13,406	—	13,406	—
International corporate bonds	7,276	—	7,276	—
Beneficial interest in perpetual trusts	10,210	—	—	10,210
	$ 61,558	1,253	50,095	10,210

(Continued)

(In thousands)

Changes in Level 3 Investments

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the years ended December 31, 2017 and 2016:

		2017	2016
Beneficial interest in perpetual trust:			
Beginning balance	$	10,210	10,350
Unrealized gains (losses)		1,281	(140)
Ending balance	$	11,491	10,210

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

Alternative Investments

		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
Multistrategy (d)		95,545	—	Semi-annually	120 Days
Private equity (c)		8,429	14,825	Private/illiquid	N/A
Total funds	$	152,235	14,825		

(In thousands)

	2016			
	Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity hedge (a)	$ 6,734	—	1–3 Years	60-65 Days
Equity hedge (a)	39,489	—	Monthly/quarterly	15–180 Days
U.S. small/mid cap hedged (a)	1,282	—	Quarterly	60 Days
Multistrategy (b)	17,908	—	Monthly/quarterly/ biennial/semi-annually	0–92 Days
Multistrategy (d)	88,551	—	Annually	120 Days
Private equity (c)	2,793	—	Private/illiquid	N/A
Total funds	$ 156,757	—		

a. *Equity hedge, U.S. small/mid cap hedged* – Hedged equity investments are focused on managers that have the ability to purchase companies long as well as sell short. The primary role of these investments is to complement the traditional equity investments by providing access to a growth-oriented return stream with a reduced dependence on upwardly trending equity markets and lower volatility. Small mid-cap investing is typically focused on companies with market capitalization of less than $5 billion.

b. *Multistrategy* – Investments are typically focused in credit, market neutral, global macro, and arbitrage strategies. In combination, these strategies are designed to produce a consistent return stream with volatility modestly higher than a diversified core, high-quality, fixed-income portfolio. Multistrategy funds would therefore be utilized primarily as a complement to the traditional fixed-income allocation.

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 co-investing into private companies. Private equity is not quoted on a public exchange and is illiquid in nature. These agreements expire in 15 years.

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.

(In thousands)

(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:

		2017	2016
Due within one year	$	399	528
Due in one to five years		816	610
		1,215	1,138
Less allowance for doubtful accounts		(311)	(311)
Discount to present value (at rates ranging from 1.64% to 2.20%)		(11)	(11)
Total contributions receivable, net	$	893	816

(5) Fixed Assets

Fixed assets at December 31 are summarized as follows:

		2017	2016	Estimated useful lives
Land	$	—	1,162	
Buildings and building improvements		194,396	236,581	5–50 Years
Furniture and equipment		15,333	14,821	3–15 Years
Leasehold improvements		73,323	38,449	1–10 Years
Computer software		4,792	4,558	3–15 Years
Projects in progress		250	12,020	
		288,094	307,591	
Less accumulated depreciation and amortization		(30,709)	(54,870)	
	$	257,385	252,721	

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 and $1,125 at December 31, 2017 and 2016, respectively, is included in furniture and equipment. Associated accumulated amortization totaled $108 and $838 at December 31, 2017 and 2016, respectively. A leased building of $193,411 at December 31, 2017 and 2016 is included in buildings and building improvements, respectively. Associated accumulated amortization totaled $10,926 and $3,169 at December 31, 2017 and 2016, respectively. See note 7.

(6) Debt

(a) Notes Payable

LGI entered into an $80,000 multiple disbursement note agreement (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 December 31, 2017 and 2016, respectively, $74,300 and $50,100 principal has been drawn on the loan of which $30,000 was used to purchase five leasehold condominium units at 80 West End Avenue, New York City for a new office facility and $44,300 used to fund ongoing construction of the new facility. 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 28, 2017. There is no outstanding balance as of December 31, 2017. Borrowing up to $35,000 is secured by LGI's investment portfolio.

(b) Interest Expense

Interest expense for the years ended December 31, 2017 and 2016 was $7,760 and $3,809, respectively.

(7) Capital Lease Payable

Effective 2012, JGB entered into a five-year capital lease agreement with interest at a rate of 3%. In 2016, JGB entered into an additional 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, at which time LGI began construction on the new office facility.

LGI accounted for the transaction as a capital lease and recognized an asset and liability on its consolidated balance sheet 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.

(In thousands)

The future lease payments are as follows:

		Amount
Fiscal year ending December 31:		
2018	$	6,317
2019		6,945
2020		7,222
2021		7,793
2022		8,254
Thereafter		282,074
		318,605
Less amount representing interest		(125,845)
Present value of net minimum lease payments		192,760
Less current portion		(643)
Long-term obligation under capital lease	$	192,117

(8) Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following at December 31:

		2017	2016
Scholarships	$	7,018	6,588
Various projects		1,097	250
Purchase of equipment		58	66
Educational services		313	92
Low vision services		200	150
Research		2,406	2,464
Time restriction		4,877	4,948
	$	15,969	14,558

(In thousands)

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

	2017	2016
Bressler fund projects	$ 219	167
Scholarships	370	167
Various projects	1,896	1,423
Purchase of equipment	8	6
Educational services	702	447
Low vision services	344	1,561
Research	81	44
Time restriction	659	562
	$ 4,279	4,377

(9) Permanently Restricted Net Assets

(a) General

LGI's endowments consist of individual donor-restricted endowment funds established to support activities of the organization. As required by 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

(c) Interpretation of Relevant Law – Massachusetts

The State of Massachusetts adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on July 2, 2009, effective June 30, 2009. The board of directors of GBGB has interpreted UPMIFA as requiring preservation of the fair value of a gift as of the gift date of donor-restricted endowment funds (historic dollar value), absent explicit donor stipulations to the contrary. As a result, and in accordance with the direction of the original donor gift instruments, GBGB classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of any subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

(d) Return Objectives, Strategies Employed and Spending Policy

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

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

The Board approved spending rate for the years ended December 31, 2017 and 2016 was up to 7% and 6.4%, respectively, not to exceed actual or accumulated earnings.

(e) Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. LGI does not have any funds with deficiencies.

(In thousands)

(f) Permanently Restricted Net Asset Composition by Type of Fund as of December 31, 2017 and 2016

Permanently restricted net assets consist of the following at December 31:

	2017	2016
Corpus of permanently restricted contributions for which:		
Income is expendable to support activities of the organization	$ 25,181	25,181
Income is to be added to original gift	211	203
Total endowments	25,392	25,384
Beneficial interest in perpetual trusts:		
Income which is expendable to support activities of the Guild and Lighthouse	11,491	10,210
Total permanently restricted net assets	$ 36,883	35,594

(g) Changes in Endowment Net Assets for the Years ended December 31, 2017 and 2016

	2017		
	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 725	25,384	26,109
Interest and dividends	398	8	406
Realized and unrealized gains	2,472	—	2,472
Appropriation of endowment assets for expenditure	(1,806)	—	(1,806)
Endowment net assets, end of year	$ 1,789	25,392	27,181

(In thousands)

		2016		
		Temporarily restricted	**Permanently restricted**	**Total**
Endowment net assets, beginning of year	$	971	21,766	22,737
Interest and dividends		483	1	484
Realized and unrealized gains		560	8	568
Reclassification		—	3,609	3,609
Appropriation of endowment assets for expenditure		(1,289)	—	(1,289)
Endowment net assets, end of year	$	725	25,384	26,109

(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 NYSDFS. 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, 2017 and 2016, respectively, NYSDOH issued draft rates through December 31, 2017 and 2016. These premium rates are the basis for revenue recognition in the financial statements. As of December 31, 2017 and 2016, due from third-party payors and other include receivables from NYSDOH related to rates of $1,833 and 21,458, respectively.

(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.

For the years ended December 31, 2017 and 2016, GuildNet recorded premium capitation revenue of $5,274 and $7,397, respectively, related to the high need/high cost pool. At December 31, 2017 and 2016, receivables of $3,581 and $5,548, respectively, are included in due from third-party payors.

(In thousands)

(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. For the years ended December 31, 2017 and 2016, $5,509 and $18,877, respectively, is recognized as premium capitation revenue. Receivables for quality incentives are $5,326 and $11,088 as of December 31, 2017 and 2016, respectively, and are included in due from third-party payors.

(d) Health Recruitment and Retention Funding

NYSDOH increased Medicaid rates for the period April 2015 through March 2016 to provide funding for Health Recruitment and Retention (R&R) of home health aides and/or other personnel with direct patient care responsibility. The methodology employed to make this determination was based on the approach approved by NYSDOH under a similar program implemented in 2002. This methodology and supporting documentation are subject to audit by third parties.

In June 2017, GuildNet received the final award amount of $3,248 for the period April 2015 through March 2016. R&R funds have been authorized for the period April 1, 2016 through December 31, 2017 but have not been distributed by NYSDOH. GuildNet is eligible to receive R&R funding for this period and has accrued an estimated receivable of $5,247, which is included in due from third-party payors and other at December 31, 2017.

(e) OMIG Audits

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

(f) Changes in Estimates

In 2017 and 2016, respectively, GuildNet recorded a reduction of revenue of $8,402 and an increase in revenue of $1,774 related to changes to estimates for prior years.

(g) 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 2017 and 2016:

		2017	2016
Cash received for providers	$	16,291	723
Cash disbursements to providers		(8,222)	(723)
Due to providers	$	8,069	—

(In thousands)

(h) Minimum Wage Adjustment

During 2017, GuildNet received funding from the NYSDOH for minimum wage for the first nine months of the period relating to April 1, 2017 through March 31, 2018, of which $12,565 is included in due to providers in the accompanying consolidated balance sheet at December 31, 2017.

(i) Litigation

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

(11) Pension Plans

(a) Defined-Benefit Plans

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

The following table sets forth the plan' funded status under U.S. GAAP and amounts recognized in the balance sheet as of and for the year ended December 31, 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 unrestricted net assets:				
Net actuarial gain (loss)	$	(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 unrestricted net assets:				
Actuarial loss	$	(8,730)	(8,208)	(9,804)

Settlement calculations have been made under FASB ASC Subtopic 715-30 for the Bargaining and Non-Bargaining plans as a result of the total lump sum benefits paid during 2017 exceeding the sum of the 2017 interest cost and service cost. Included in 2017 pension cost is a settlement of $639 for the Bargaining Plan and $474 for the Non-Bargaining Plan.

The net actuarial loss for the plans that will be amortized from accumulated unrestricted net assets into net periodic pension cost in 2018 is as follows:

	Bargaining	Non-Bargaining	Lighthouse Retirement Plan
$	(926)	(886)	(310)

(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 table sets forth the plan' funded status under U.S. GAAP and amounts recognized in the balance sheet as of and for the year ended December 31, 2016:

		Bargaining	Non-Bargaining	Lighthouse Retirement Plan
Projected benefit obligation	$	(24,953)	(28,392)	(49,097)
Plan assets at fair value		15,973	24,370	32,924
Funded status recognized in the balance sheet as long-term liability	$	(8,980)	(4,022)	(16,173)
Pension cost	$	1,264	971	327
Employer contributions		—	—	907
Benefits paid		1,519	592	3,347

(In thousands)

		Bargaining	Non-Bargaining	Lighthouse Retirement Plan
Increase (decrease) recognized in other changes in unrestricted net assets:				
Net actuarial gain (loss)	$	(415)	(1,424)	(368)
Impact of settlements		—	313	—
Amortization of net actuarial loss		985	825	303
	$	570	(286)	(65)
Amounts recognized in accumulated unrestricted net assets:				
Actuarial loss	$	(9,336)	(9,030)	(11,207)

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 2016 exceeding the sum of the 2016 interest cost and service cost. Included in 2016 pension cost is a settlement of $389 for the Non-Bargaining Plan.

The net actuarial loss for the plans that will be amortized from accumulated unrestricted net assets into net periodic pension cost in 2017 is as follows:

	Bargaining	Non-Bargaining	Lighthouse Retirement Plan
$	(897)	(886)	(288)

(In thousands)

The following table sets forth the key actuarial assumptions used by the plans as of and for the year ended December 31, 2016:

	Bargaining	Non-Bargaining	Lighthouse Retirement Plan
Weighted average assumptions used for net pension cost:			
Discount rate	3.90 %	3.80 %	4.10 %
Expected return on plan assets	6.00	6.00	7.50
Rate of compensation increase	N/A	N/A	N/A
Discount rate used to calculate the effect of plan settlement as of December 31, 2016	N/A	3.70 %	N/A
Weighted average assumptions used for pension obligations:			
Discount rate	3.75 %	3.70 %	3.90 %
Expected return on plan assets	N/A	5.75	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			
	2017		2016	
	Total	Level 3	Total	Level 1
Assets:				
Common collective trust	$ 15,950	15,950	—	—
Cash and cash equivalents	—	—	1,087	1,087
Equity securities	—	—	461	461
Exchange-traded funds:				
Fixed income	—	—	5,931	5,931
International equity	—	—	292	292
U.S. large-cap equity	—	—	449	449
Total exchange-traded funds	—	—	6,672	6,672

(In thousands)

	Bargaining			
	2017		2016	
	Total	Level 3	Total	Level 1
Mutual funds:				
Fixed income	$ —	—	2,329	2,329
Emerging markets equity	—	—	321	321
International equity	—	—	1,026	1,026
Total mutual funds	—	—	3,676	3,676
Total investments measured at fair value	15,950	$ 15,950	11,896	11,896
Alternative investments measured at NAV (or equivalent)	656		4,069	
Net accrued income and expenses	55		8	
Total	$ 16,661		15,973	

(i) Changes in Level 3 Investments

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended December 31, 2017:

	2017
Common collective trust:	
Beginning balance	$ —
Purchases	13,964
Unrealized gains	1,986
Ending balance	$ 15,950

(In thousands)

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

		Non-Bargaining			
		2017		2016	
		Total	Level 3	Total	Level 1
Assets:					
Common collective trust	$	23,398	23,398	—	—
Cash and cash equivalents		—	—	1,242	1,242
Equity securities		—	—	1,019	1,019
Total		—	—	2,261	2,261
Exchange-traded funds:					
Fixed income		—	—	10,624	10,624
International equity		—	—	395	395
Total exchange-traded funds		—	—	11,019	11,019
Mutual funds:					
Fixed income		—	—	3,726	3,726
International equity		—	—	1,188	1,188
Total mutual funds		—	—	4,914	4,914
Total investments measured at fair value		23,398	23,398	18,194	18,194
Alternative investments measured at NAV (or equivalent)		1,120		6,166	
Net accrued income and expenses		107		10	
Total	$	24,625		24,370	

(Continued)

(In thousands)

(ii) Changes in Level 3 Investments

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended December 31, 2017:

		2017
Common collective trust:		
Beginning balance	$	—
Purchases		21,177
Unrealized gains		2,221
Ending balance	$	23,398

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

	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		

(Continued)

(In thousands)

	2016		
	Lighthouse Retirement Plan		
	Total	Level 1	Level 3
Assets:			
Equity securities	$ 2	2	—
Common collective trust	32,809	—	32,809
Total investments measured at fair value	32,811	$ 2	32,809
Alternative investments measured at NAV (or equivalent)	107		
Net accrued income and expenses	6		
Total	$ 32,924		

(iii) *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, 2017 and 2016:

	2017	2016
Common collective trust:		
Beginning balance	$ 32,809	30,883
Unrealized gains	3,966	1,926
Ending balance	$ 36,775	32,809

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

Alternative Investments

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

(In thousands)

	2016				
	Bargaining	Non-Bargaining	Lighthouse retirement plan	Redemption frequency	Redemption notice period
Multistrategy (a)	$ 2,552	4,703	—	Semiannually Quarterly	90 Days
U.S. small mid-cap equity hedged (b)	1,501	1,437	107	Quarterly	0–60 Days
Private equity (c)	16	26	—	In liquidation	N/A
Total	$ 4,069	6,166	107		

There are no unfunded commitments as of December 31, 2017 or 2016.

a. *Multistrategy* – Investments are typically focused in credit, market neutral, global macro, and arbitrage strategies. In combination, these strategies are designed to produce a consistent return stream with volatility modestly higher than a diversified core, high-quality, fixed-income portfolio. Multistrategy funds would therefore be utilized as a complement to the traditional fixed-income allocation.

b. *U.S. small mid-cap equity hedged* – Hedged equity investments are focused on managers that have the ability to purchase companies long as well as sell short. The primary role of these investments is to complement the traditional equity investments by providing access to a growth-oriented return stream with a reduced dependence on upwardly trending equity markets and lower volatility. Small mid-cap investing is typically focused on companies with market capitalization of less than $5 billion.

c. *Private equity* – Private equity consists of investments directly into private companies, or buyouts of public companies that result in a delisting of public equity. Other strategies involve investing in the secondary markets and coinvesting into private companies. Private equity is not quoted on a public exchange and is illiquid in nature. Private equity funds are in liquidation and expected to be fully redeemed by the end of 2018.

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 Guild's target plan assets allocations are 60% equity, 32% fixed income, and 8% 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 Lighthouse's target plan assets allocations are 37% equity, 60% fixed income, and 3% alternative investments.

(In thousands)

(iv) 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 2018 for the Non-Bargaining Plan due to the preexisting funding balance. The Guild is required to make quarterly contributions of $291 and $292 in 2018 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 year ending December 31:				
2018	$	3,123	3,957	3,211
2019		2,048	2,295	3,193
2020		1,853	2,296	3,202
2021		1,773	2,068	3,270
2022		1,592	1,921	3,223
2023–2027		7,562	9,023	15,314

(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, 2017 and 2016 was $2,991 and $2,926, respectively.

(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, 2017 and 2016:

		2017	2016
Benefit obligation	$	(1,712)	(1,744)
Fair value of plan assets		—	—
Funded status	$	(1,712)	(1,744)

(Continued)

(In thousands)

		2017	2016
Amounts recognized in the consolidated balance sheet:			
Current liability	$	(125)	(119)
Long-term liability		(1,587)	(1,625)
	$	(1,712)	(1,744)
(Benefit) cost	$	(58)	(178)
Employer contributions		78	135
Benefits paid		80	137
Increase (decrease) recognized in other changes in unrestricted net assets:			
Net actuarial (gain) loss	$	(51)	78
Amortization of transition obligation		25	31
Effect of curtailment		7	18
Amortization of net actuarial gain		(86)	(84)
	$	(105)	43
Amounts recognized in accumulated unrestricted net assets:			
Transition obligation	$	(22)	(54)
Actuarial gain		1,197	1,334
	$	1,175	1,280

The net actuarial gain and transition obligation that will be amortized from unrestricted net assets into net periodic benefit cost in 2018 are $87 and $(22), respectively.

During 2017, 67 active participants terminated from the Bargaining Unit plan prior to being eligible for postretirement health care 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.

During 2016, 70 active participants terminated from the Bargaining Unit plan prior to being eligible for postretirement health care benefits, resulting in a decrease in expected future working lifetime of approximately 21%. This event has been accounted for as a curtailment and resulted in a decrease in the benefit obligation of approximately $264 for the year ended December 31, 2016.

(In thousands)

Weighted average assumptions as of December 31, 2017 and 2016:

	2017	2016
Discount rate:		
Used for benefit obligation – Bargaining plan	3.55 %	4.00 %
Used for benefit obligation – Non-Bargaining plan	3.30	3.65
Used for net benefit cost – Bargaining plan	4.00	4.35
Used for net benefit cost – Non-Bargaining plan	3.80	3.70
Healthcare cost trend assumed for next year	3.65	8.10

As of June 30, 2017 and 2016, the liability for the Bargaining plan was remeasured at 3.8% and 3.5%, 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 2088 for the Bargaining plan and 4.3% is reached in 2074 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, 2017 and 2016 as follows:

	Accumulated postretirement benefit obligation		Service cost plus interest cost	
	2017	2016	2017	2016
At trend + 1%	$ 26	27	1	1
At trend – 1%	(24)	(25)	(1)	(1)

The expected contribution in 2018 is $127.

Benefit payments expected to be paid are as follows:

2018	$ 127
2019	123
2020	120
2021	113
2022	106
2023–2027	506

(In thousands)

(13) Regulatory Requirements

New York State Regulatory Requirements

Under the laws of the State of New York Part 98 of Title 10 NYCRR, GuildNet is required to maintain a contingent reserve that is calculated as 5% 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 net worth of GuildNet, based on admitted assets, equals or exceeds the applicable contingent reserve requirements for such calendar year. As discussed in note 2(aa), in 2016 GuildNet issued a Surplus Note to meet its contingent reserve requirement.

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.

NYSDFS requires the escrow deposit to be invested in accordance with Section 1404(a) of the New York Insurance Law. GuildNet was not required to make a deposit in March 2018 or 2017 to satisfy the 2017 and 2016 escrow deposit requirement of $31,956 and $43,199, respectively.

(a) Contingent Reserve

		2017	2016
MLTCP and MAP:			
2017 and 2016 total premium revenue, respectively	$	753,986	1,041,080
		5 %	5 %
		37,699	52,054
FIDA:			
2017 and 2016 total premium revenue, respectively		62,801	75,235
		6.25 %	5.75 %
		3,925	4,326
Total contingent reserve	$	41,624	56,380

(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.

(In thousands)

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 2016 it incurred a net loss, which is greater than one-half of GuildNet’s total net worth at December 31, 2016. Therefore, CMS may require additional reporting from GuildNet.

(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 $6,635 and $4,856 for 2017 and 2016, respectively.

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

2018	$	4,429
2019		3,153
2020		2,865
2021		2,883
2022		2,998
Thereafter		12,514
Total lease commitments	$	28,842

In 2017, GuildNet decided to cease use of a leased facility. The remaining lease obligation of $2,644 is recorded as a liability in accounts payable and accrued expenses and other liabilities. Guildcare also ceased use of a leased facility and recorded the remaining lease obligation of $473 as a liability in accounts payable and accrued expenses.

(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 $4,268 and $3,902 at December 31, 2017 and 2016, 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 permanently restricted net assets in the accompanying consolidated statement of operations and changes in net assets. The present value of the trust funds as of December 31, 2017 and 2016 is $11,491 and $10,210, 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, 2017 and 2016, the consolidated statements of operations and changes in net assets and the consolidated balance sheets include the various split-interest agreements at fair market value as follows:

	2017	
	Charitable gift annuities – unrestricted	**Trusts – temporarily restricted**
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	—

	2016	
	Charitable gift annuities – unrestricted	**Trusts – temporarily restricted**
Consolidated statements of operations and changes in net assets:		
Change in value of annuity obligations	$ 136	—
Actuarial gain on beneficial interest in trusts	—	132
Consolidated balance sheets:		
Investments	$ 5,289	—
Beneficial interest in irrevocable trusts (other assets)	—	3,902
Annuity obligations	2,974	—

(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, 2017 and 2016 is as follows:

	2017		2016	
	Receivables	Revenue	Receivables	Revenue
Medicaid	72 %	94 %	71 %	95 %
Medicare	2	4	2	4
Other third-party payors	26	2	27	1

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

Approximately 58% of LGI's employees are union employees who are covered under the terms of two collective bargaining agreements. The United Federation of Teachers agreement expires in 2019 and 1199 expires in 2020.

(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, 2017 and 2016, respectively. GuildNet furnished a listing to the actuarial consultant of all claims paid by GuildNet by date of service through December 2017 and 2016, 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, 2017 and 2016:

	2017	2016
Claims payable, beginning of period	$ 174,112	132,685
Incurred related to:		
Current year	761,915	1,050,481
Prior year	(38,652)	14,820
Total incurred	723,263	1,065,301

(In thousands)

		2017	2016
Paid related to:			
Current year	$	(678,401)	(880,575)
Prior year		(134,268)	(143,299)
Total paid		(812,669)	(1,023,874)
Claims payable, end of period	$	84,706	174,112

Reserves for unpaid claims attributable to prior years' incurred claims decreased by $38,652 and increased by $14,820, respectively, in 2017 and 2016. The changes are generally the result of ongoing analysis of recent loss development trends, and the actual payments in 2017 for 2016 were lower than anticipated due to the initiatives to control utilization of personal care attendant (PCA) services and a lower than expected share of nursing home membership. As of December 31, 2016, the savings from the PCA services initiative were not identifiable in paid claims and there was a growing trend of membership in nursing homes.

(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 $200 as of December 31, 2017 and 2016, with a maximum payable of $2,000 as of December 31, 2017 and 2016. The reinsurance premium of $142 and $195, respectively, for the years ended December 31, 2017 and 2016 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 $163. Rental income for the years ended December 31, 2017 and 2016 was $166 and $720, respectively.

Sale of 65th Street Property

On February 16, 2016, Jewish Guild for the Blind 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 $157.0 million (Purchase Price). LGI received a deposit of $40.0 million in 2016, which was recorded as a current deposit liability at December 31, 2016.

The closing of the sale of property took place on November 15, 2017 and the Purchase Price was reduced by $10.0 million to $147.0 million. $15.0 million of the Purchase Price was received in the form of a passive non-controlling 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 six percent (6%) per annum, compounded quarterly, on a pari passu basis with the return of equity, with a preferred return not to exceed nine percent (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 $10.8 million and the value related to the equity interest mentioned above was $1.1 million. Per ASC 360-20, such value is deemed the cost basis of the investment in the equity interest.

The net gain on the sale is $120.7 million after closing costs and excludes the potential deferred gain on the equity interest. The balance of the net proceeds of $90.8 million was received in December 2017.

Schedule 1

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidating Balance Sheet

December 31, 2017

(In thousands)

Assets	Lighthouse Guild International, Inc.	Jewish Guild Healthcare & Affiliate	Lighthouse International & Affiliate	GuildNet, Inc.	J.G.B. Health Facilities Corporation	J.G.B. Rehabilitation Corporation	J.G.B. Education Services	J.G.B. Mental Health & Mental Retardation Services, Inc.	National Association of Parents of Children with Visual Impairments, Inc.	Greater Boston Guild for the Blind, Inc. & Affiliate	Eliminations	2017 Total
Current assets:												
Cash and cash equivalents	$ 11,447	221	679	21,631	714	342	740	261	106	6	—	36,147
Investments, current portion	371,820	6,500	4,430	95,918	—	—	—	—	—	300	—	478,968
Due from third-party payors and other, net	—	410	1,063	15,645	1,660	310	440	504	—	—	—	20,032
Prepaid expenses and other current assets	4,688	309	371	706	54	31	5	6	—	—	—	6,170
Due from LGI endowment investment pool	—	8,332	16,927	—	—	—	—	—	—	—	(25,259)	—
Total current assets	387,955	15,772	23,470	133,900	2,428	683	1,185	771	106	306	(25,259)	541,317
Assets limited or restricted as to use:												
Statutory escrow	—	—	—	51,892	—	—	—	—	—	—	—	51,892
Endowment investments	25,261	—	—	—	—	—	—	—	—	131	—	25,392
Beneficial interest in perpetual trusts	—	574	10,917	—	—	—	—	—	—	—	—	11,491
Total assets limited or restricted as to use	25,261	574	10,917	51,892	—	—	—	—	—	131	—	88,775
Investments, net of current portion	11,823	2,011	529	—	—	—	—	—	—	—	—	14,363
Fixed assets, net	250,425	56	175	6,101	143	219	145	119	2	—	—	257,385
Intangible asset, net	—	—	—	3,035	—	—	—	—	—	—	—	3,035
Other assets	8,747	1,470	3,561	—	—	—	—	—	—	579	—	14,357
Total assets	$ 684,211	19,883	38,652	194,928	2,571	902	1,330	890	108	1,016	(25,259)	919,232
Liabilities and Net Assets												
Current liabilities:												
Accounts payable and accrued expenses	$ 11,001	1,064	1,237	3,189	733	38	5	9	—	—	—	17,276
Claims payable	—	—	—	84,706	—	—	—	—	—	—	—	84,706
Accrued premium deficiency	—	—	—	10,141	—	—	—	—	—	—	—	10,141
Accrued salaries and related expenses	627	5,784	238	—	—	—	—	—	—	—	—	6,649
Due to third-party payors, net	—	15	30	2,979	96	9	50	50	—	—	—	3,229
Due to providers	—	—	—	20,634	—	—	—	—	—	—	—	20,634
Current portion of capital lease payable	593	50	—	—	—	—	—	—	—	—	—	643
Current portion of accrued pension and postretirement medical benefits	—	125	—	—	—	—	—	—	—	—	—	125
Current portion of annuity obligations	—	207	365	—	—	—	—	—	—	—	—	572
Other current liabilities	2,210	50	(16)	—	—	—	—	—	—	—	—	2,244
Due to JGB and LHI endowment fund	25,259	—	—	—	—	—	—	—	—	—	(25,259)	—
Total current liabilities	39,690	7,295	1,854	121,649	829	47	55	59	—	—	(25,259)	146,219
Long-term liabilities:												
Note payable	74,300	—	—	—	—	—	—	—	—	—	—	74,300
Capital lease payable, net of current portion	192,117	—	—	—	—	—	—	—	—	—	—	192,117
Accrued pension and postretirement medical benefits, net of current portion	—	15,644	13,522	—	—	—	—	—	—	—	—	29,166
Annuity obligations, net of current portion	—	986	1,254	—	—	—	—	—	—	—	—	2,240
Subordinated surplus note	—	—	—	47,089	—	—	—	—	—	—	(47,089)	—
Subordinated surplus note interest payable	—	—	—	2,402	—	—	—	—	—	—	(2,402)	—
Other liabilities	—	—	—	2,363	—	—	—	—	—	—	—	2,363
Total long-term liabilities	266,417	16,630	14,776	51,854	—	—	—	—	—	—	(49,491)	300,186
Due to (from) affiliates	380,280	(236,240)	(139,933)	(4,040)	48,232	32,080	28,366	29,471	1,484	2,879	(142,579)	—
Total liabilities	686,387	(212,315)	(123,303)	169,463	49,061	32,127	28,421	29,530	1,484	2,879	(217,329)	446,405
Net assets (deficit)	(2,176)	232,198	161,955	25,465	(46,490)	(31,225)	(27,091)	(28,640)	(1,376)	(1,863)	192,070	472,827
Total liabilities and net assets	$ 684,211	19,883	38,652	194,928	2,571	902	1,330	890	108	1,016	(25,259)	919,232

See accompanying independent auditors' report.

Schedule 2

LIGHTHOUSE GUILD INTERNATIONAL, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets

December 31, 2017

(In thousands)

	Lighthouse Guild International, Inc.	Jewish Guild Healthcare & Affiliate	Lighthouse International & Affiliate	GuildNet, Inc.	J.G.B. Health Facilities Corporation	J.G.B. Rehabilitation Corporation	J.G.B. Education Services	J.G.B. Mental Health & Mental Retardation Services, Inc.	National Association of Parents of Children with Visual Impairments, Inc.	Greater Boston Guild for the Blind, Inc.	Eliminations	2017 Total
Revenue and other support from operations:												
Management fees	$ —	73,935	—	—	—	—	—	—	—	—	(73,935)	—
Program revenue	—	613	1,852	816,786	—	—	3,424	—	—	—	—	822,675
Net patient service revenue	—	—	—	—	7,476	1,570	—	2,229	—	—	(1,243)	10,032
Provision for bad debts	—	—	—	—	(756)	(151)	—	(187)	—	—	—	(1,094)
Other revenue	(345)	2,336	15	854	229	250	73	126	—	—	(2,429)	1,109
Total revenue and other support from operations	(345)	76,884	1,867	817,640	6,949	1,669	3,497	2,168	—	—	(77,607)	832,722
Operating expenses:												
Program services:												
Managed care	—	65,176	—	778,691	—	—	—	—	—	—	(71,134)	772,733
Adult day healthcare	—	—	—	—	8,755	—	—	—	—	—	—	8,755
Clinical and rehabilitation	—	2,266	2,024	—	—	2,517	—	—	—	—	—	6,807
Behavioral health	—	—	—	—	—	—	—	4,167	—	—	—	4,167
Education	—	—	1,987	—	—	—	3,340	—	—	—	—	5,327
Other programs	2,884	748	528	—	—	—	—	—	137	—	(68)	4,229
Total program services	2,884	68,190	4,539	778,691	8,755	2,517	3,340	4,167	137	—	(71,202)	802,018
Supporting services:												
Management and general	10,625	2,367	1,796	63,297	4,230	4,020	3,242	1,382	75	—	(6,473)	84,561
Fund-raising	1,968	47	26	—	—	—	—	—	5	—	—	2,046
Total supporting services	12,593	2,414	1,822	63,297	4,230	4,020	3,242	1,382	80	—	(6,473)	86,607
Total operating expenses	15,477	70,604	6,361	841,988	12,985	6,537	6,582	5,549	217	—	(77,675)	888,625
(Loss) gain from operations before gain on sale/disposal of fixed assets	(15,822)	6,280	(4,494)	(24,348)	(6,036)	(4,868)	(3,085)	(3,381)	(217)	—	68	(55,903)
Gain on sale/disposal of fixed assets	—	120,655	—	—	—	—	—	—	—	—	—	120,655
(Loss) gain from operations	(15,822)	126,935	(4,494)	(24,348)	(6,036)	(4,868)	(3,085)	(3,381)	(217)	—	68	64,752
Nonoperating revenue, gains, and losses:												
Contributions and grants	2,134	343	273	—	12	203	57	3	116	2	—	3,143
Special events	1,058	—	—	—	—	—	—	—	—	—	—	1,058
Legacies and bequests	215	1,882	2,716	—	—	—	508	—	—	—	—	5,321
Interest and dividend income	4,551	873	321	1,655	—	—	—	—	—	2	—	7,402
Net realized and unrealized gains on investments	37,230	568	2,157	7,502	—	—	—	—	—	—	—	47,457
Distributions from perpetual trusts	—	28	402	—	—	—	—	—	—	—	—	430
Grant from Jewish Guild Healthcare	—	—	—	—	—	47	21	—	—	—	(68)	—
Change in value of annuity obligations	—	(143)	(251)	—	—	—	—	—	—	—	—	(394)
Change in value of beneficial interest in trusts	—	83	1,563	—	—	—	—	—	—	39	—	1,685
Total nonoperating revenue, gains, and losses, net	45,188	3,634	7,181	9,157	12	250	586	3	116	43	(68)	66,102
Excess (deficiency) of revenue, gains, and losses over expenses before other changes	29,366	130,569	2,687	(15,191)	(6,024)	(4,618)	(2,499)	(3,378)	(101)	43	—	130,854
Other changes:												
Pension and postretirement benefit changes other than net periodic benefit cost	—	1,503	1,225	—	—	—	—	—	—	—	—	2,728
Reserve for affiliates	(5,001)	(11,379)	—	—	—	—	—	—	—	—	16,380	—
Change in net assets	24,365	120,693	3,912	(15,191)	(6,024)	(4,618)	(2,499)	(3,378)	(101)	43	16,380	133,582
Net assets (deficit), beginning of year	(26,541)	111,505	158,043	40,656	(40,466)	(26,607)	(24,592)	(25,262)	(1,275)	(1,906)	175,690	339,245
Net assets (deficit), end of year	$ (2,176)	232,198	161,955	25,465	(46,490)	(31,225)	(27,091)	(28,640)	(1,376)	(1,863)	192,070	472,827

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