



**THE LIGHTHOUSE FOR THE BLIND,
INCORPORATED AND ITS FOUNDATIONS**

**Report of Independent Auditors and
Consolidated Financial Statements**

September 30, 2010 and 2009

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of The Lighthouse for the Blind, Incorporated and its Foundations (the Organization) as of September 30, 2010 and 2009, and the related consolidated statements of activities and changes in unrestricted net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization at September 30, 2010 and 2009, and consolidated changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Seattle, Washington
February 21, 2011

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2010 AND 2009**

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,712,208	\$ 7,272,575
Accounts receivable, net of allowance for doubtful accounts of \$335,000 and \$775,000, respectively	2,582,082	3,958,700
Other receivables	145,890	36,509
Inventory	6,270,032	6,356,932
Other assets	183,131	391,738
Total current assets	<u>16,893,343</u>	<u>18,016,454</u>
 INVESTMENTS	 11,461,774	 10,938,785
 PROPERTY, PLANT AND EQUIPMENT, net	 <u>14,473,869</u>	 <u>13,588,637</u>
	<u><u>\$ 42,828,986</u></u>	<u><u>\$ 42,543,876</u></u>
 LIABILITIES AND UNRESTRICTED NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,984,958	\$ 3,159,956
Deferred revenue	373,551	142,227
Accrued vacation and sick leave	902,326	836,552
Other liabilities	54,553	216,568
Current portion of long-term debt	-	167,017
Total current liabilities	<u>5,315,388</u>	<u>4,522,320</u>
 UNFUNDED PENSION OBLIGATION	 4,290,264	 2,997,360
 LONG-TERM DEBT, net of current portion	 <u>-</u>	 <u>1,575,200</u>
Total liabilities	<u>9,605,652</u>	<u>9,094,880</u>
 UNRESTRICTED NET ASSETS		
Unrestricted	21,309,675	22,011,158
Board designated	11,913,659	11,437,838
	<u>33,223,334</u>	<u>33,448,996</u>
	<u><u>\$ 42,828,986</u></u>	<u><u>\$ 42,543,876</u></u>

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
CONSOLIDATED STATEMENTS OF ACTIVITIES
AND CHANGES IN UNRESTRICTED NET ASSETS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
NET SALES	\$ 44,097,204	\$ 50,956,842
COST OF SALES	<u>34,418,903</u>	<u>40,183,690</u>
	<u>9,678,301</u>	<u>10,773,152</u>
COSTS AND EXPENSES		
Warehouse and shipping	755,420	927,784
Selling	255,289	362,727
Administrative	7,357,909	6,194,619
Recovery of doubtful accounts	<u>(329,285)</u>	<u>(287,164)</u>
	<u>8,039,333</u>	<u>7,197,966</u>
INCOME FROM MANUFACTURING AND BASE SUPPLY OPERATIONS	<u>1,638,968</u>	<u>3,575,186</u>
OTHER INCOME (EXPENSE)		
Investment return	971,389	219,521
Excess of employee and community services expenses over support and revenue	(2,024,240)	(1,905,324)
Other expense, net	(693,626)	(454,603)
Bequests, contributions, grants and charitable trust distributions	<u>1,149,551</u>	<u>905,657</u>
	<u>(596,926)</u>	<u>(1,234,749)</u>
OPERATING INCOME	1,042,042	2,340,437
PENSION BENEFIT OBLIGATION ADJUSTMENT	<u>(1,267,704)</u>	<u>(3,492,357)</u>
CHANGE IN UNRESTRICTED NET ASSETS	(225,662)	(1,151,920)
UNRESTRICTED NET ASSETS		
Beginning of year	<u>33,448,996</u>	<u>34,600,916</u>
End of year	<u>\$ 33,223,334</u>	<u>\$ 33,448,996</u>

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ (225,662)	\$ (1,151,920)
Adjustments to reconcile change in unrestricted net assets to cash provided by operating activities		
Depreciation	1,319,314	1,263,093
Realized and unrealized (gain) loss on investments, net	(690,356)	91,279
Loss on sale of property, plant and equipment	-	3,917
Change in allowance for doubtful accounts	(440,000)	(439,571)
Changes in operating assets and liabilities		
Accounts receivable	1,816,618	3,653,938
Other receivables	(109,381)	439,714
Inventory	86,900	(373,582)
Other assets	208,607	(37,529)
Prepaid pension cost	25,200	(269,248)
Liabilities	960,085	54,019
	<u>2,951,325</u>	<u>3,234,110</u>
INVESTING ACTIVITIES		
Purchases of investments	(2,275,909)	(2,140,387)
Proceeds from sale of investments	2,443,276	2,072,446
Purchases of property, plant and equipment	(2,204,546)	(2,930,265)
Adjustment to pension benefit obligation	1,267,704	3,492,357
	<u>(769,475)</u>	<u>494,151</u>
FINANCING ACTIVITIES		
Payments on long-term debt	<u>(1,742,217)</u>	<u>(155,882)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	439,633	3,572,379
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>7,272,575</u>	<u>3,700,196</u>
End of year	<u>\$ 7,712,208</u>	<u>\$ 7,272,575</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 21,933</u>	<u>\$ 111,166</u>

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

Note 1 - Operations and Summary of Significant Accounting Policies

Operations - The Lighthouse for the Blind, Incorporated and its Foundations (the Lighthouse) is a not-for-profit organization whose objective is to create and enhance opportunities for independence and self-sufficiency of people who are blind, deaf-blind and blind with other disabilities. It is comprised of Lighthouse for the Blind, Inc., The Seattle Lighthouse for the Blind Foundation and The Danny Lord Foundation.

The principal activities of the Lighthouse are conducted at its office and plant facilities located in Seattle and Spokane, Washington and base supply store operations in a variety of locations.

The principal functions of the Lighthouse include:

- Manufacturing and assembly of aerospace, military and other products utilizing metal fabrication, injection molding and other processes.
- Manufacturing of military canteens, hydration systems, communication boards, easels, notebook binders, paper trimmers, file folders and other items under government contracts.
- Operating military base supply centers for sales of office and other supplies to the bases.
- Operating a center that provides evaluation, orientation and mobility, vocational, communication and educational training services.

The Seattle Lighthouse for the Blind Foundation (the Foundation) is an organization committed to soliciting funds exclusively for the Lighthouse. The funds are primarily used to support employee and community service programs. The Foundation was formed in January 2003 as a 501(c)(3) organization.

The Danny Lord Foundation (Danny Lord) was established to further the charitable activities of the Lighthouse. Danny Lord was formed in 1979 as a 501(c)(3) organization. Effective December 1, 2009, the Danny Lord Foundation was terminated and its net assets were transferred into the Foundation.

Principles of Consolidation - The Lighthouse, the Foundation and Danny Lord (collectively, the Organization) have some common Board of Trustees members and common management. The results of the Lighthouse, the Foundation and Danny Lord have been consolidated as of September 30, 2010 and 2009 and for the years then ended. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

Basis of Presentation - The Organization presents its consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Under the requirements of GAAP, financial position and activities are reported according to three classes of net assets - unrestricted, temporarily restricted and permanently restricted. The restriction of these net asset classes is determined based on the existence and nature of donor-imposed restrictions. Temporarily restricted support received during the fiscal period, for which the restriction expires or the purpose is accomplished during the same period, is reported as unrestricted support.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

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

At September 30, 2010 and 2009, the Organization had no temporarily or permanently restricted net assets.

Cash and Cash Equivalents - The Organization deposits all cash and cash equivalents with major financial institutions. At times, such deposit balance may be in excess of the federal insurance limits. The Organization considers highly liquid debt instruments with an original maturity of three months or less at time of acquisition to be cash equivalents. The Organization places its short-term investments with financial institutions and, by policy, limits the amount of exposure to any one financial institution, equity issuer, or industry group.

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

Inventory - Manufacturing inventory is recorded at the lower of cost (as determined by the first-in, first-out method) or market. Base supply inventory is recorded at weighted average cost and included in finished goods.

Investments - The Organization places its investments with an investment manager as detailed in Note 3. This investment manager invests these funds in the various financial instruments noted below, in accordance with the Board approved investment policy.

The Organization's investments are recorded in the consolidated financial statements at fair value. The value of publicly traded equity and fixed income securities is based on quoted market prices. The Organization has a venture capital investment that is not readily marketable. This investment, which is managed externally, is valued utilizing the most current information provided by the investment manager. Net appreciation (depreciation) in investments, including realized gains or losses and unrealized appreciation (depreciation) on those investments, as well as all dividends, interest, and other investment income net of fees, is shown in the consolidated statement of activities in the line item "investment return." Investment income (loss) is reported as an increase (decrease) in unrestricted net assets.

Investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the consolidated balance sheet.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

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

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

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

The Organization follows the practice of capitalizing substantially all expenditures for property, plant and equipment in excess of \$5,000. The cost of repairs, maintenance, and depreciation are charged to expense.

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

Freight and Shipping Costs - Shipping fees charged to customers are accounted for as a component of sales revenue and those incurred by the Organization as a component of warehouse and shipping costs. Freight incurred by the Organization is included as a component of cost of sales.

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

Fund-Raising Expense - Total fund-raising expense for the years ended September 30, 2010 and 2009 was \$56,008 and \$65,007, respectively, or 5% and 7%, respectively, of the total contribution revenue. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

Income Taxes - The Organization is exempt from federal income tax as an entity described in Internal Revenue Code (IRC) Section 501(c)(3) except to the extent of unrelated business taxable income as defined under the provisions of IRC Sections 511 through 515. The Organization did not incur unrelated business income tax for the years ended September 30, 2010 and 2009. In addition, the Organization qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a). Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

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

The Organization adopted the provisions of authoritative guidance relating to accounting for uncertain tax positions on October 1, 2009, which had no financial statement impact to the Organization. The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Organization recognizes interest and penalties related to income tax matters in income tax expense. As of September 30, 2010 and 2009, the Organization had no uncertain tax positions requiring accrual.

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

Reclassifications - Certain reclassifications were made to the 2009 balances. The reclassifications were for presentation purposes only and had no effect on the 2009 change in unrestricted net assets.

Subsequent Events - Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are issued. The Organization has evaluated subsequent events through February 21, 2011, which is the date the consolidated financial statements were issued.

Note 2 - Allowance for Doubtful Accounts

The following summarizes the change in the allowance for doubtful accounts for the years ended September 30:

	2010	2009
Beginning balance as of October 1	\$ 775,000	\$ 1,214,571
Adjustments to allowance for doubtful accounts	(329,285)	(287,164)
Charges and bad debt write-offs against the allowance	(110,715)	(152,407)
	\$ 335,000	\$ 775,000

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

Note 3 - Investments

Investment Valuation - In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

The Organization classified its investments as of September 30, 2010 and 2009 based upon an established 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 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

- | | |
|----------------|--|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; |
| Level 2 | Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly; |
| Level 3 | Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable and are supported by little or no market activity. |

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments in cash and cash equivalents, mutual funds, equity securities, and commodities which are valued based on quoted market prices are typically classified within Level 1.

Values of investments, equity securities, common collective trusts, corporate debt and U.S. government securities which are not established by an active market but do track or are established by observable inputs, such as market based index or a blend of indices, are typically classified within Level 2.

Investments which are valued utilizing unobservable inputs, are classified within Level 3. The managers and trustees of such assets generally value their underlying investments at the fair value and in accordance with GAAP. Investments with no readily available market are generally valued according to the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations and/or the income approach. Consideration is also given to financial condition and operating results of the investment, the amount a fund can reasonably expect to realize upon the sale of an investment, and any other factors deemed relevant.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

Note 3 - Investments (Continued)

An investment can be carried at acquisition price (cost) if little has changed since the initial investment of the Organization and is most representative of fair value. Investments with a readily available market (listed on a securities exchange or traded in the over-the-counter market) are valued at quoted market prices or at an appropriate discount from such price if marketability of the securities is restricted. Investments consist of the following at September 30:

	<u>2010</u>	<u>2009</u>
Domestic equity securities	\$ 4,279,201	\$ 4,170,293
Common and collective trusts	2,287,960	2,029,256
Corporate debt	1,431,831	1,568,405
U.S. government securities	1,512,884	1,452,948
Hedge fund	735,688	714,152
Mutual funds*	841,257	656,092
Commodities	216,829	255,274
Venture capital	156,124	92,365
	<u>\$ 11,461,774</u>	<u>\$ 10,938,785</u>

* Fixed income domestic corporate bond funds and real estate indexed funds.

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

The following summarizes the investment return at September 30:

	<u>2010</u>	<u>2009</u>
Dividends and interest	\$ 281,033	\$ 310,800
Realized loss, net	(3,515)	(904,003)
Unrealized gain, net	693,871	812,724
	<u>\$ 971,389</u>	<u>\$ 219,521</u>

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

Note 3 - Investments (Continued)

The following table discloses by level the fair value hierarchy:

	Investment Assets at Fair Value as of September 30, 2010			
	Level 1	Level 2	Level 3	Total
Domestic equity securities	\$ 4,226,679	\$ 52,522	\$ -	\$ 4,279,201
Common and collective trusts	-	2,287,960	-	2,287,960
Corporate debt	-	1,431,831	-	1,431,831
U.S. government securities	-	1,512,884	-	1,512,884
Hedge fund	-	735,688	-	735,688
Mutual funds*	841,257	-	-	841,257
Commodities	216,829	-	-	216,829
Venture capital	-	-	156,124	156,124
	<u>\$ 5,284,765</u>	<u>\$ 6,020,885</u>	<u>\$ 156,124</u>	<u>\$ 11,461,774</u>

	Investment Assets at Fair Value as of September 30, 2009			
	Level 1	Level 2	Level 3	Total
Domestic equity securities	\$ 4,120,370	\$ 49,923	\$ -	\$ 4,170,293
Common and collective trusts	-	2,029,256	-	2,029,256
Corporate debt	-	1,568,405	-	1,568,405
U.S. government securities	-	1,452,948	-	1,452,948
Hedge fund	-	-	714,152	714,152
Mutual funds*	656,092	-	-	656,092
Commodities	255,274	-	-	255,274
Venture capital	-	-	92,365	92,365
	<u>\$ 5,031,736</u>	<u>\$ 5,100,532</u>	<u>\$ 806,517</u>	<u>\$ 10,938,785</u>

* Fixed income domestic corporate bond funds and real estate indexed funds.

During the year ended September 30, 2010, the Hedge Fund valued at \$735,688 as of September 30, 2010, was reclassified from a Level 3 to a Level 2 investment in accordance with new authoritative guidance.

As of September 30, 2010, the Organization has the following Level 2 investments measured at fair value on a recurring basis utilizing net asset value per share:

- Collective Investment Trust - Included in Common and Collective Trusts, is a privately offered fund with an estimated fair value of \$1,376,897 based on the net asset value per share of the investments. The net asset value is recalculated weekly. Redemption requires notification three days before the sale date, but otherwise has no restrictions. The primary objective of the fund is to provide investment results that exceed, over time and on a risk-adjusted basis, the overall performance of an index commonly used to represent the non US equity markets.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

Note 3 - Investments (Continued)

- Hedge Fund - This privately offered fund of funds has an estimated fair value of \$735,688 based on the net asset value per share of the investment. Capital withdrawals are permitted at the end of each quarter with written notice 60 days prior to redemption. In general, redemptions of at least 95% of the amount being redeemed will be paid within 30 days after the redemption date and the balance paid after completion of the fund's fiscal year-end audit. The fund's objective is to achieve attractive risk-adjusted returns with low volatility through a diversified portfolio of assets including hedged equity, market independent, event driven and market dependent investments.

The following table discloses the summary of changes in the fair value of the Level 3 investment assets:

	2010	
	Hedge Fund	Venture Capital
Balance, beginning of year	\$ 714,152	\$ 92,365
Unrealized gains	21,536	13,759
Purchases, settlements and dispositions	-	50,000
Reclassification to Level 2	(735,688)	-
Balance, end of year	<u>\$ -</u>	<u>\$ 156,124</u>
	2009	
	Hedge Fund	Venture Capital
Balance, beginning of year	\$ 721,137	\$ 80,000
Unrealized gains (losses)	(6,985)	12,365
Balance, end of year	<u>\$ 714,152</u>	<u>\$ 92,365</u>

Note 4 - Inventory

Inventory is composed of the following at September 30:

	2010	2009
Raw materials	\$ 3,539,304	\$ 4,007,129
Work-in-process	1,328,033	862,564
Finished goods	1,402,695	1,487,239
	<u>\$ 6,270,032</u>	<u>\$ 6,356,932</u>

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

Note 5 - Employee Benefit Plans

Defined Benefit Pension Plan - The Organization maintains a defined benefit pension plan (the Plan), which covers certain employees. Effective December 31, 2008 the Plan was frozen. Participant benefits are primarily related to years of credited service and annual earnings. An employee was eligible to participate in the Plan after completing one year of service and upon attaining 21 years of age. The Organization's funding policy is to contribute annually an amount equal to the normal cost of the Plan. The benefit formula is a career average unit of credit formula under which employees can earn 1.5% of their annual wages for each year of service.

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

	2010	2009
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 16,693,733	\$ 13,131,821
Service cost	61,665	536,891
Interest cost	912,627	975,154
Plan curtailment	-	(662,587)
Benefits paid	(562,421)	(554,400)
Administrative expenses	(10,934)	(38,724)
Actuarial loss	1,987,207	3,305,578
Projected benefit obligation at end of year	\$ 19,081,877	\$ 16,693,733
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 13,696,373	\$ 13,357,570
Actual return on plan assets	1,168,595	531,927
Employer contributions	500,000	400,000
Benefits paid	(562,421)	(554,400)
Administrative expenses	(10,934)	(38,724)
Fair value of plan assets at end of year	\$ 14,791,613	\$ 13,696,373
Reconciliation of funded status		
Fair value of plan assets	\$ 14,791,613	\$ 13,696,373
Projected benefit obligation	19,081,877	16,693,733
Funded status - under funded	\$ (4,290,264)	\$ (2,997,360)

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009**

Note 5 - Employee Benefit Plans (Continued)

	<u>2010</u>	<u>2009</u>
Reconciliation of prepaid pension expense		
Funded status - under funded	\$ (4,290,264)	\$ (2,997,360)
Unrecognized prior service cost	67,635	113,549
Unrecognized net actuarial loss	<u>7,233,023</u>	<u>5,919,405</u>
Prepaid pension expense	<u>\$ 3,010,394</u>	<u>\$ 3,035,594</u>
Accumulated benefit obligation at end of year	<u>\$ 19,081,877</u>	<u>\$ 16,693,733</u>
The estimated amounts to be amortized over the next fiscal year		
Prior service cost	\$ 25,041	\$ 45,914
Net loss	<u>542,797</u>	<u>412,624</u>
	<u>\$ 567,838</u>	<u>\$ 458,538</u>
Net periodic pension cost, by component		
Service cost	\$ 61,665	\$ 536,891
Interest cost	912,627	975,154
Expected return on plan assets	(907,630)	(884,761)
Amortization of prior service cost	45,914	67,309
Amortization of net loss	<u>412,624</u>	<u>98,745</u>
Net periodic pension cost	<u>\$ 525,200</u>	<u>\$ 793,338</u>

GAAP requires unrecognized amounts (e.g., net actuarial gains or losses and prior service cost or credits) to be recognized as non-operating activities and that those amounts be adjusted as they are subsequently recognized as components of net periodic pension cost over the remaining years of the expected future benefit periods.

The Plan was frozen to new participants effective December 31, 2008.

<u>Expected future benefit payments</u>	
2011	\$ 729,971
2012	692,933
2013	764,448
2014	808,274
2015	825,992
2016 through 2020	4,985,794

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
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Note 5 - Employee Benefit Plans (Continued)

	<u>2010</u>	<u>2009</u>	
Weighted-average assumptions as of September 30:			
Discount rate	4.89%	5.55%	
Expected return on plan assets	6.75%	6.75%	
Rate of compensation increase	0.00%	0.00%	
 Employer contributions - discretionary	 <u>\$ 500,000</u>	 <u>\$ 400,000</u>	
	<u>Target %</u>	<u>Actual</u>	<u>Expected Return</u>
Allocation of plan assets			
Cash and cash equivalents	2-10%	5.80%	3.20%
Fixed income	22-40%	29.22%	4.50%
Equities	35-70%	54.42%	8.05%
Alternative investments	0-20%	10.56%	7.80%

At September 30, 2010 and 2009, the projected benefit obligation in excess of Plan assets amounted to \$4,290,264 and \$2,997,360, respectively. This increase in the underfunded status was primarily due to a market fluctuation that decreased the discount rate required to value the projected benefit obligation. This discount rate is measured at a single point in time each fiscal year end. The Organization does not fully fund the Plan in order to manage potential tax consequences that can result from significant year to year market volatility.

The expected rate of return is analyzed based on historical long-term rates of return for various investment categories, as measured by appropriate indexes. The rates of return on these indexes are then weighted based upon the percentage of Plan assets in each applicable category to determine a composite expected return.

The Organization reviews its expected rate of return assumption on Plan assets annually. However, this is considered to be a long-term assumption and hence not anticipated to change annually unless there are significant changes in economic and market conditions.

Investment goals and risk management practices:

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

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Note 5 - Employee Benefit Plans (Continued)

The Organization had no non-cash contributions during the years ended September 30, 2010 and 2009 and has no expectation of non-cash contributions in future years. The Organization makes contributions annually in accordance with the applicable requirements of the Employee Retirement Security Act of 1974.

There were no intangible assets recorded related to unrecognized prior service costs in 2010 or 2009.

Tax-Deferred Annuity Plan - The Organization offers a tax-deferred annuity Plan for all employees who meet certain eligibility requirements. Participants may contribute up to 50% of their annual compensation. The Organization makes contributions to the annuity Plan up to 6% of employee compensation. Contributions under the annuity Plan by the Organization totaled \$925,194 and \$356,837 for the years ended September 30, 2010 and 2009, respectively.

Note 6 - Property, Plant and Equipment

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

	2010	2009
Land	\$ 2,154,274	\$ 2,154,274
Buildings and improvements	13,185,942	12,771,934
Machinery and equipment	20,218,989	18,427,278
	35,559,205	33,353,486
Less accumulated depreciation	21,085,336	19,764,849
	\$ 14,473,869	\$ 13,588,637

Note 7 - Long-Term Debt

Long-term debt consists of the following at September 30:

	2010	2009
Note payable to bank, collateralized by real estate, interest at 6.0%, principal and interest payments of \$22,254 required monthly, final payment due 2013.	\$ -	\$ 1,742,217
Less current portion	-	167,017
	\$ -	\$ 1,575,200

On November 16, 2009, the debt was repaid in its entirety.

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Note 8 - Employee and Community Services Center

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

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

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

Below is a schedule of support and revenue, and expenses of the ECS Center for the years ended September 30:

	<u>2010</u>	<u>2009</u>
Support and revenue		
State and local government funding	\$ 217,047	\$ 247,204
Other	26,116	33,709
	<u>243,163</u>	<u>280,913</u>
Expenses		
Salaries and related expenses	1,507,432	1,528,455
Administrative expenses	660,954	558,170
Deaf-Blind retreat	99,017	99,612
	<u>2,267,403</u>	<u>2,186,237</u>
Excess of employee and community services expenses over support and revenue	<u>\$ (2,024,240)</u>	<u>\$ (1,905,324)</u>

Note 9 - Bequests, Contributions, Grants and Charitable Trust Distributions

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

Note 10 - The Foundation

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

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Note 10 - The Foundation (Continued)

The financial position and the financial activities of the Foundation, which are included in the accompanying consolidated financial statements, are as follows as of September 30:

	<u>2010</u>	<u>2009</u>
Cash and investments	\$ 2,871,337	\$ 2,056,334
Unrestricted net assets	<u>\$ 2,871,337</u>	<u>\$ 2,056,334</u>
Net assets at beginning of year	\$ 2,056,334	\$ 1,902,830
Contributions received, including in-kind	1,149,551	905,656
Transfer from Danny Lord Foundation	592,761	-
Interest income	52,959	33,163
Realized loss on investments, net	(19,320)	(93,283)
Unrealized gain on investments, net	185,983	122,050
Contribution to the Lighthouse	(684,167)	(459,274)
In-kind expense	(92,305)	(13,904)
Operating expenses allocated from Lighthouse	<u>(370,459)</u>	<u>(340,904)</u>
Net assets at end of year	<u>\$ 2,871,337</u>	<u>\$ 2,056,334</u>

The financial position and activities of the Foundation at September 30, 2010, include net assets from the Danny Lord Foundation, previously a 501 (c)(3) organization terminated effective December 1, 2009 and consolidated into the Foundation.

Contributions received by the Foundation include cash and in-kind charitable giving. Unrestricted funds received are primarily used to support employee and community service programs. Expenses incurred by the Foundation include allocations of personnel and facilities costs from the Lighthouse, as well as expenses relating to donor acquisition and in-kind contributions expense related to the contribution of goods and services. All necessary eliminations have been included in the consolidated financial statements.

Note 11 - Credit Risk Concentration and Other Concentration

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

Dependence on Customers - During the years ended September 30, 2010 and 2009 approximately 33% of sales were to two customers. At September 30, 2010 and 2009, approximately 57% and 64% respectively, of trade accounts receivable was due from these customers.

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Note 12 - Fair Value of Financial Instruments

At September 30, 2010 and 2009, the Organization has the following financial instruments: cash and cash equivalents, accounts receivable, investments, debt, accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value based on the liquidity of these financial instruments and their short-term nature. The Organization's debt borrowings approximate fair value because the interest rate is consistent with current market rates. Carrying value of investments approximate fair value as discussed in Note 3.