THE LIGHTHOUSE FOR THE BLIND, INCORPORATED AND ITS FOUNDATIONS

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2008

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of The Lighthouse for the Blind, Incorporated and its Foundations (the Organization) as of September 30, 2008, and the related consolidated statements of activities and changes in unrestricted net assets and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2008, and consolidated changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Seattle, Washington
February 26, 2009

THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2008

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 3,700,196
Accounts receivable, net of allowance for doubtful accounts of $1,214,571	7,173,066
Other receivables	476,223
Inventory	5,983,350
Other assets	354,210
Total current assets	17,687,045
LONG-TERM INVESTMENTS	10,962,123
PREPAID PENSION COST	225,749
PROPERTY, PLANT AND EQUIPMENT, net	11,925,383
	$ 40,800,300

LIABILITIES AND UNRESTRICTED NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 3,147,406
Deferred revenue	205,175
Accrued vacation and sick leave	823,931
Other liabilities	124,772
Current portion of long-term debt	157,314
Total current liabilities	4,458,598
LONG-TERM DEBT	1,740,786
TOTAL LIABILITIES	6,199,384
UNRESTRICTED NET ASSETS	
Unrestricted	23,032,409
Board designated	11,568,507
	34,600,916
	$ 40,800,300

See accompanying notes.

THE LIGHTHOUSE FOR THE BLIND, INCORPORATED AND ITS FOUNDATIONS

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS

YEAR ENDED SEPTEMBER 30, 2008

NET SALES	$ 45,834,424
COST OF SALES	34,473,623
	11,360,801
COSTS AND EXPENSES	
Warehouse and shipping	462,417
Selling	507,218
Administrative	6,702,305
	7,671,940
INCOME FROM MANUFACTURING AND BASE SUPPLY OPERATIONS	3,688,861
OTHER INCOME (LOSS)	
Investment return	(1,738,309)
Excess of employee and community services expenses over support and revenue	(2,014,957)
Other loss, net	(450,994)
Bequests, contributions, grants and charitable trust distributions	1,103,167
	(3,101,093)
PENSION BENEFIT OBLIGATION ADJUSTMENT	(440,386)
CHANGE IN UNRESTRICTED NET ASSETS	147,382
UNRESTRICTED NET ASSETS	
Beginning of year	34,453,534
End of year	$ 34,600,916

See accompanying notes.

THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2008

OPERATING ACTIVITIES	
Change in unrestricted net assets	$ 147,382
Adjustments to reconcile change in unrestricted net assets to cash provided by operating activities	
Depreciation	1,068,278
Realized and unrealized loss on investments, net	2,115,645
Gain on sale of property, plant and equipment	(22,507)
Change in allowance for doubtful accounts	(1,122,489)
Changes in operating assets and liabilities	
Receivables	(158,814)
Inventory	(1,953,904)
Other assets	(124,367)
Prepaid pension cost	(600,500)
Liabilities	681,671
	30,395
INVESTING ACTIVITIES	
Purchases of investments	(7,334,789)
Proceeds from sale of investments	6,980,144
Purchases of property, plant and equipment	(4,398,141)
Proceeds from sale of property, plant and equipment	28,000
Adjustment to pension benefit obligation	440,386
	(4,284,400)
FINANCING ACTIVITIES	
Payments on long-term debt	(101,900)
CHANGE IN CASH AND CASH EQUIVALENTS	(4,355,905)
CASH AND CASH EQUIVALENTS	
Beginning of year	8,056,101
End of year	$ 3,700,196
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid for interest	$ 76,133
NON-CASH INVESTING AND FINANCING ACTIVITIES	
Acquisition of land and building through bank financing	$ 2,000,000

See accompanying notes.

Note 1 - Operations and Summary of Significant Accounting Policies

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

The principal functions of the Lighthouse include:

- Operating a metal fabricating and assembly shop in which parts are fabricated and assembled for an airplane manufacturer and others; manufacturing of military canteens, hydration systems, 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.
- Manufacturing household items.
- Operating a center that provides evaluation, orientation and mobility, vocational, communication and educational training services.

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

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) organzation.

Principles of Consolidation - The Lighthouse, the Foundation and Danny Lord (collectively, the Organization) have some common Board of Trustees members and common management. Accordingly, the results of the Lighthouse, the Foundation and Danny Lord have been consolidated as of September 30, 2008, and for the year 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 Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under the requirements of SFAS No. 117, financial position and activities are reported according to three classes of net assets - unrestricted, temporarily restricted and permanently restricted. The restriction of these net assets classes is determined based on the existence and nature of donor-imposed restrictions. Temporarily restricted support received during the fiscal period, for which the restriction expires or the purpose is accomplished during the same period, is reported as unrestricted support.

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

At September 30, 2008, the Organization had no temporarily or permanently restricted net assets.

Cash and Cash Equivalents - The Organization deposits all cash and cash equivalents with high quality 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.

Allowance for Doubtful Accounts - The Organization extends credit to substantially all of its customers. Accounts receivable are recorded at the invoice amount and do not bear interest. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of its customers to pay. The Organization determines the allowance based on review of past due balances, historical write-off experience and economic data. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Organization has established credit policies and historically the losses related to customer nonpayment have been low as a percentage of net sales. Bad debt expense of $1,129,780 was recognized in 2008 and is included in administrative expense on the consolidated statement of activities and changes in unrestricted net assets.

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

Investments - 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. The Organization places its long-term investments principally in corporate stocks, bonds, mutual funds, government securities, hedge funds, and money market funds, as detailed in Note 2, with an investment manager. This investment manager invests these funds in the various financial instruments noted above, 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. Hedge funds consist primarily of investments that are not readily marketable. Investments in this category, which are managed externally, are valued utilizing the most current information provided by the investment manager. Net appreciation (depreciation) in investments, including realized gains or losses and unrealized appreciation or depreciation on those investments, as well as all dividends, interest, and other investment income, is shown in the consolidated statement of activities. Investment income (loss) is reported as an increase (decrease) in unrestricted net assets.

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

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

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 and manufactured items. The revenue from these prepaid funds is recorded at the time the goods are shipped or delivered.

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 year ended September 30, 2008 was $97,058, or 9% 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 income tax under Section 501(c)(3) of the Internal Revenue Code, and accordingly is generally exempt from federal income taxes under the provisions of Section 501(a). However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. Currently there is no unrelated business income. In addition, the Organization qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a).

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

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

Recent Accounting Pronouncements - In September 2006, the Financial Accounting Standards Board (FASB), issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Organization is currently assessing the potential effect if any of implementing this standard.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The statement permits entities to choose to measure financial instruments and other items at fair value that are not currently required to be measured at fair value. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Organization is in the process of determining the potential effect, if any, of implementing this standard.

Note 2 - Investments

Investments consist of the following at September 30, 2008:

Equity securities	$ 5,792,477
Corporate debt	2,522,874
U.S. government securities	1,506,279
Hedge fund	721,137
Real estate	254,649
Commodities	84,707
Venture capital	80,000
	$ 10,962,123

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.

Note 2 - Investments (Continued)

The following summarizes the investment return at September 30, 2008:

Dividends and interest	$ 377,336
Realized loss, net	(393,111)
Unrealized loss, net	(1,722,534)
	$ (1,738,309)

Note 3 - Inventory

Inventory is composed of the following at September 30, 2008:

Raw materials	$ 3,204,791
Work-in-process	847,217
Finished goods	1,931,342
	$ 5,983,350

Note 4 - Employee Benefit Plans

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

Note 4 - Employee Benefit Plans (Continued)

The following is the Plan's funded status and amounts recognized in the Organization's consolidated financial statements as of and for the year ended September 30, 2008:

Change in projected benefit obligation (PBO)	
Benefit obligation at beginning of year	$ 14,441,006
Service cost	617,857
Interest cost	879,842
Benefits paid	(506,673)
Administrative expenses	(68,023)
Actuarial loss	(2,232,188)
Projected benefit obligation at end of year	$ 13,131,821
Change in plan assets	
Fair value of plan assets at beginning of year	$ 14,506,641
Actual return on plan assets	(1,974,375)
Employer contributions	1,400,000
Benefits paid	(506,673)
Administrative expenses	(68,023)
Fair value of plan assets at end of year	$ 13,357,570
Reconciliation of funded status	
Fair value of plan assets	$ 13,357,570
Projected benefit obligation	13,131,821
Funded status	$ 225,749
Reconciliation of prepaid pension expense	
Funded status	$ 225,749
Unrecognized prior service cost	180,858
Unrecognized net actuarial gain	2,359,738
Prepaid benefit cost	$ 2,766,345
Accumulated benefit obligation	$ 13,225,445

Note 4 - Employee Benefit Plans (Continued)

The estimated amounts to be amortized over the next fiscal year	
Prior service cost	$ 67,309
Net loss	98,745
	$ 166,054
The net periodic benefit cost total	$ 643,931

Adoption of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* was required by the Organization during the year ended September 30, 2007. There were no intangible assets recorded related to unrecognized prior service costs in 2008. During the year, the Plan was frozen to new participants and additional accruals effective January 1, 2009.

Expected future benefit payments	
2009	$ 713,565
2010	$ 632,689
2011	$ 634,698
2012	$ 689,499
2013	$ 770,182
2014 through 2018	$ 4,738,027

Weighted-average assumptions as of September 30, 2008:	
Discount rate	6.20%
Expected return on plan assets	6.75%
Rate of compensation increase	4.00%

Employer contributions - discretionary	$ 1,400,000

	Target %	(Actual)	Expected Return
Allocation of plan assets			
Cash and cash equivalents	2-10%	8.67%	3.20%
Fixed income	22-40%	36.40%	4.50%
Equities	35-70%	46.42%	8.05%
Alternative investments	0-20%	8.51%	7.80%

Note 4 - Employee Benefit Plans (Continued)

The Organization had no non-cash contributions during the year ended September 30, 2008 and has no expectation of non-cash contributions in future years. The Organization expects to make contributions annually to cover the cost of the Plan.

Investment goals and risk management practices:

- The investment objective of this portfolio is to provide growth with income, with appropriate consideration for diversification and quality.

- Investment managers shall have sole discretion to make investment decisions, within the scope of the Investment Policy approved by the Lighthouse Board of Trustees.

- Disciplined risk management is expected to produce returns over time consistent with the portfolio's objectives.

Tax-Deferred Annuity Plan - The Organization offers a tax-deferred annuity plan for all employees who meet certain eligibility requirements. Participants may contribute up to 50% of their annual compensation. The Organization makes contributions to the annuity plan up to 4.5% of employee compensation. Contributions under the annuity plan by the Organization totaled $233,103 for the year ended September 30, 2008.

Effective January 1, 2009, the Organization has increased the amount of matching contributions to a maximum of 6% of employee compensation.

Note 5 - Property, Plant and Equipment

Property, plant and equipment consists of the following at September 30, 2008:

Land	$ 2,040,912
Buildings and improvements	11,222,655
Machinery and equipment	17,212,954
	30,476,521
Less accumulated depreciation	18,551,138
	$ 11,925,383

Note 6 - Long-Term Debt

Long-term debt consists of the following at September 30, 2008:

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.	$	1,898,100
Less current portion		157,314
	$	1,740,786

Future maturities of long-term debt are:

Years Ending September 30,		
2009	$	157,314
2010		167,017
2011		177,318
2012		188,255
2013		1,208,196
	$	1,898,100

Note 7 - Employee and Community Services Center

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

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

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

Note 7 - Employee and Community Services Center (Continued)

A schedule of support and revenue and expenses of the ECS Center for the year ended September 30, 2008 is as follows:

Support and revenue	
State and local government funding	$ 238,429
Other	40,712
	279,141
Expenses	
Salaries and related expenses	1,537,541
Administrative expenses	640,917
Deaf-Blind retreat	115,640
	2,294,098
Excess of employee and community services expenses over support and revenue	$ (2,014,957)

Note 8 - 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.

Note 9 - 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.

Note 9 - The Foundation (Continued)

The financial position at September 30, 2008, and the financial activities for the year then ended of the Foundation, which are included in the accompanying consolidated financial statements, are as follows:

Cash and investments	$ 1,902,830
Unrestricted net assets	$ 1,902,830
Net assets at beginning of year	$ 2,118,096
Contributions received	1,123,167
Interest income	67,561
Realized gain on investments, net	7,409
Unrealized loss on investments, net	(248,526)
Contribution to the Lighthouse	(633,818)
In-kind expense	(171,859)
Operating expenses allocated from Lighthouse	(359,200)
Net assets at end of year	$ 1,902,830

Expenses incurred by the Foundation include allocations of personnel and facilities costs from the Lighthouse, as well as expenses relating to donor acquisition, development of Foundation and procedures and in-kind contributions expense related to the contribution of goods and services. All necessary eliminations have been included in the consolidated financial statements.

Note 10 - Danny Lord

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

Note 10 - Danny Lord (Continued)

The financial position at September 30, 2008, and the financial activities for the year then ended of Danny Lord, which are included in the accompanying consolidated financial statements, are as follows:

Investments	$	604,533
Unrestricted net assets	$	604,533
Unrestricted net assets at beginning of the year	$	689,856
Investment income		16,267
Transfers to ECS Center		(20,000)
Realized gain on investments, net		12,221
Unrealized loss on investments, net		(93,811)
Unrestricted net assets at end of the year	$	604,533

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 high credit quality financial institutions. However, at times, deposits exceed the federally insured limits.

Dependence on Customers - During the year ended September 30, 2008, approximately 38% of sales were to two customers. At September 30, 2008, approximately 80% of trade accounts receivable was due from these customers.

Note 12 - Fair Value of Financial Instruments

At September 30, 2008, 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 approximates fair value based on quoted market prices.

Note 12 - Fair Value of Financial Instruments (Continued)

Limitations - The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instruments. Because no market exits for certain of these financial instruments, fair value estimates are based on judgments regarding current economic conditions and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Change in assumptions could significantly affect the estimates. Accordingly, the estimates presented herein are not necessarily indicative of what the Organization could realize in current market exchange.