

MOSSES ADAMS

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

**Independent Auditor's Report and
Consolidated Financial Statements**

September 30, 2009 and 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, 2009 and 2008, 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, 2009 and 2008, 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.



Seattle, Washington
March 24, 2010

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2009 AND 2008**

ASSETS		
	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,272,575	\$ 3,700,196
Accounts receivable, net of allowance for doubtful accounts of \$775,000 and \$1,214,571, respectively	3,958,700	7,173,066
Other receivables	36,509	476,223
Inventory	6,356,932	5,983,350
Other assets	391,738	354,210
Total current assets	18,016,454	17,687,045
LONG-TERM INVESTMENTS	10,938,785	10,962,123
PREPAID PENSION COST	-	225,749
PROPERTY, PLANT AND EQUIPMENT, net	13,588,637	11,925,383
	\$ 42,543,876	\$ 40,800,300
LIABILITIES AND UNRESTRICTED NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,159,956	\$ 3,147,406
Deferred revenue	142,227	205,175
Accrued vacation and sick leave	836,552	823,931
Other liabilities	216,568	124,772
Current portion of long-term debt	167,017	157,314
Total current liabilities	4,522,320	4,458,598
UNFUNDED PENSION OBLIGATION	2,997,360	-
LONG-TERM DEBT, net of current portion	1,575,200	1,740,786
Total liabilities	9,094,880	6,199,384
UNRESTRICTED NET ASSETS		
Unrestricted	22,011,158	23,032,409
Board designated	11,437,838	11,568,507
	33,448,996	34,600,916
	\$ 42,543,876	\$ 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
YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
NET SALES	\$ 50,956,842	\$ 45,834,424
COST OF SALES	<u>40,183,690</u>	<u>34,473,623</u>
COSTS AND EXPENSES	<u>10,773,152</u>	<u>11,360,801</u>
Warehouse and shipping	927,784	614,066
Selling	362,727	507,218
Administrative	6,194,619	5,420,876
Provision for doubtful accounts	<u>(287,164)</u>	<u>1,129,780</u>
	<u>7,197,966</u>	<u>7,671,940</u>
INCOME FROM MANUFACTURING AND BASE SUPPLY OPERATIONS	<u>3,575,186</u>	<u>3,688,861</u>
OTHER INCOME (LOSS)		
Investment return	219,521	(1,738,309)
Excess of employee and community services expenses over support and revenue	(1,905,324)	(2,014,957)
Other expense, net	(454,603)	(450,994)
Bequests, contributions, grants and charitable trust distributions	<u>905,657</u>	<u>1,103,167</u>
	<u>(1,234,749)</u>	<u>(3,101,093)</u>
NET INCOME	2,340,437	587,768
PENSION BENEFIT OBLIGATION ADJUSTMENT	<u>(3,492,357)</u>	<u>(440,386)</u>
CHANGE IN UNRESTRICTED NET ASSETS	(1,151,920)	147,382
UNRESTRICTED NET ASSETS		
Beginning of year	<u>34,600,916</u>	<u>34,453,534</u>
End of year	<u>\$ 33,448,996</u>	<u>\$ 34,600,916</u>

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ (1,151,920)	\$ 147,382
Adjustments to reconcile change in unrestricted net assets to cash provided by operating activities		
Depreciation	1,263,093	1,068,278
Realized and unrealized loss on investments, net	91,846	2,115,645
Loss (gain) on sale of property, plant and equipment	3,917	(22,507)
Change in allowance for doubtful accounts	(439,571)	1,122,489
Changes in operating assets and liabilities		
Receivables	3,653,938	(2,403,792)
Other receivables	439,714	-
Inventory	(373,582)	(1,953,904)
Other assets	(37,529)	(124,367)
Prepaid pension cost	(269,248)	(600,500)
Liabilities	63,723	681,671
	<u>3,244,381</u>	<u>30,395</u>
INVESTING ACTIVITIES		
Purchases of investments	(2,140,387)	(7,334,789)
Proceeds from sale of investments	2,071,879	6,980,144
Purchases of property, plant and equipment	(2,930,265)	(4,398,141)
Proceeds from sale of property, plant and equipment	-	28,000
Adjustment to pension benefit obligation	3,492,357	440,386
	<u>493,584</u>	<u>(4,284,400)</u>
FINANCING ACTIVITIES		
Payments on long-term debt	<u>(165,586)</u>	<u>(101,900)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	3,572,379	(4,355,905)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,700,196</u>	<u>8,056,101</u>
End of year	<u>\$ 7,272,575</u>	<u>\$ 3,700,196</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 111,166</u>	<u>\$ 76,133</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of land and building through bank financing	<u>\$ -</u>	<u>\$ 2,000,000</u>

See accompanying notes.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

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. 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.
- 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 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, 2009 and 2008, and for the years then ended. All significant intercompany transactions and accounts have been eliminated in the consolidated financial statements.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

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

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 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.

At September 30, 2009 and 2008, 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.

Long Term Investments - The Organization places its long-term investments with an investment manager as detailed in Note 2. This investment manager invests these funds in the various financial instruments noted below, in accordance with the Board approved investment policy.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

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

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 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 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.

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.

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.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

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

Fund-Raising Expense - Total fund-raising expense for the years ended September 30, 2009 and 2008 was \$65,007 and \$97,058, respectively, or 7% and 9%, 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 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).

As of September 30, 2009 and 2008 the Organization has elected not to adopt the new accounting provisions related to uncertain tax positions, however, the Organization had no uncertain tax positions requiring accrual and disclosure.

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 2008 balances. The reclassifications were for presentation purposes only and had no effect on the 2008 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 balance sheet but arose after the balance sheet date and before financial statements are issued. The Organization has evaluated subsequent events through March 24, 2010, which is the date the consolidated financial statements were issued.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

Note 2 - Allowance for Doubtful Accounts

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

	2009	2008
Beginning balance as of October 1	\$ 1,214,571	\$ 92,082
Provision for (adjustments to) doubtful accounts	(287,164)	1,122,489
Charges and bad debt write-offs against the allowance	(152,407)	-
Ending balance as of September 30	\$ 775,000	\$ 1,214,571

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, 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.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

Note 3 - Investments (Continued)

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.

An investment can be carried at acquisition price (cost) if little has changed since the initial investment of the company 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:

	2009	2008
Equity securities	\$ 4,170,293	\$ 5,792,477
Common and collective trusts	2,029,256	-
Corporate debt	1,568,405	2,522,874
U.S. government securities	1,452,948	1,506,279
Hedge fund	714,152	721,137
Mutual funds	656,092	-
Real estate	-	254,649
Commodities	255,274	84,707
Venture capital	92,365	80,000
	\$ 10,938,785	\$ 10,962,123

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
AND ITS FOUNDATIONS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

Note 3 - Investments (Continued)

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

The following summarizes the investment return at September 30:

	2009	2008
Dividends and interest	\$ 310,800	\$ 377,336
Realized loss, net	(904,003)	(393,111)
Unrealized gain (loss), net	812,724	(1,722,534)
	\$ 219,521	\$ (1,738,309)

The following table discloses by level the fair value hierarchy:

	Investment Assets at Fair Value as of September 30, 2009			
	Level 1	Level 2	Level 3	Total
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
	\$ 5,031,736	\$ 5,100,532	\$ 806,517	\$ 10,938,785

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

Note 3 - Investments (Continued)

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

	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:

	2009	2008
Raw materials	\$ 4,007,129	\$ 3,204,791
Work-in-process	862,564	847,217
Finished goods	1,487,239	1,931,342
	<u>\$ 6,356,932</u>	<u>\$ 5,983,350</u>

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 LIGHTHOUSE FOR THE BLIND, INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

Note 5 - 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 years ended September 30:

	<u>2009</u>	<u>2008</u>
Change in projected benefit obligation (PBO)		
Benefit obligation at beginning of year	\$ 13,131,821	\$ 14,441,006
Service cost	536,891	617,857
Interest cost	975,154	879,842
Plan curtailment	(662,587)	-
Benefits paid	(554,400)	(506,673)
Administrative expenses	(38,724)	(68,023)
Actuarial (gain) loss	3,305,578	(2,232,188)
Projected benefit obligation at end of year	<u>\$ 16,693,733</u>	<u>\$ 13,131,821</u>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 13,357,570	\$ 14,506,641
Actual return on plan assets	531,927	(1,974,375)
Employer contributions	400,000	1,400,000
Benefits paid	(554,400)	(506,673)
Administrative expenses	(38,724)	(68,023)
Fair value of plan assets at end of year	<u>\$ 13,696,373</u>	<u>\$ 13,357,570</u>
Reconciliation of funded status		
Fair value of plan assets	\$ 13,696,373	\$ 13,357,570
Projected benefit obligation	16,693,733	13,131,821
Funded status - over (under) funded	<u>\$ (2,997,360)</u>	<u>\$ 225,749</u>
Reconciliation of prepaid pension expense		
Funded status - over (under) funded	\$ (2,997,360)	\$ 225,749
Unrecognized prior service cost	113,549	180,858
Unrecognized net actuarial gain	5,919,405	2,359,738
Prepaid pension expense	<u>\$ 3,035,594</u>	<u>\$ 2,766,345</u>
Accumulated benefit obligation	<u>\$ 12,546,921</u>	<u>\$ 13,225,445</u>

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

Note 5 - Employee Benefit Plans (Continued)

	2009	2008
The estimated amounts to be amortized over the next fiscal year		
Prior service cost	\$ 45,914	\$ 67,309
Net loss	412,624	98,745
	<u>\$ 458,538</u>	<u>\$ 166,054</u>
Net periodic pension cost, by component		
Service cost	\$ 536,891	\$ 617,857
Interest cost	975,154	879,842
Expected return on plan assets	(884,761)	(962,323)
Amortization of prior service cost	67,309	86,908
Amortization of net loss	98,745	21,647
Net periodic pension cost	<u>\$ 793,338</u>	<u>\$ 643,931</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.

Adoption of the above GAAP provision 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. The Plan was frozen to new participants effective January 1, 2009.

Expected future benefit payments	
2010	\$ 731,047
2011	\$ 646,534
2012	\$ 700,896
2013	\$ 789,708
2014	\$ 835,401
2015 through 2019	\$ 5,051,544

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

	<u>2009</u>	<u>2008</u>	
Weighted-average assumptions as of September 30:			
Discount rate	5.55%	7.57%	
Expected return on plan assets	6.75%	6.75%	
Rate of compensation increase	0.00%	4.00%	
 Employer contributions - discretionary	 <u>\$ 400,000</u>	 <u>\$ 1,400,000</u>	
	<u>Target %</u>	<u>Actual</u>	<u>Expected Return</u>
Allocation of plan assets			
Cash and cash equivalents	2-10%	7.97%	3.20%
Fixed income	22-40%	29.78%	4.50%
Equities	35-70%	51.00%	8.05%
Alternative investments	0-20%	11.25%	7.80%

At September 30, 2009, the projected benefit obligation in excess of plan assets amounted to \$2,997,360. During the fiscal year ended September 30, 2009, the plan changed from an over funded to an underfunded status primarily due to a market fluctuation that decreased the discount rate required to value the projected benefit obligation.

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 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.

**THE LIGHTHOUSE FOR THE BLIND, INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009 AND 2008**

Note 5 - Employee Benefit Plans (Continued)

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.

The Organization had no non-cash contributions during the year ended September 30, 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 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 \$356,837 and \$233,103 for the years ended September 30, 2009 and 2008.

Note 6 - Property, Plant and Equipment

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

	2009	2008
Land	\$ 2,154,274	\$ 2,040,912
Buildings and improvements	12,771,934	11,222,655
Machinery and equipment	18,427,278	17,212,954
	33,353,486	30,476,521
Less accumulated depreciation	19,764,849	18,551,138
	\$ 13,588,637	\$ 11,925,383

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Note 7 - Long-Term Debt

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

	2009	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.	\$ 1,742,217	\$ 1,898,100
Less current portion	167,017	157,314
	\$ 1,575,200	\$ 1,740,786

Future maturities of long-term debt are:

Years Ending September 30,	
2010	\$ 167,017
2011	177,318
2012	188,255
2013	1,209,627
	\$ 1,742,217

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

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.

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Note 8 - Employee and Community Services Center (Continued)

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

	<u>2009</u>	<u>2008</u>
Support and revenue		
State and local government funding	\$ 247,204	\$ 238,429
Other	33,709	40,712
	<u>280,913</u>	<u>279,141</u>
Expenses		
Salaries and related expenses	1,528,455	1,537,541
Administrative expenses	558,170	640,917
Deaf-Blind retreat	99,612	115,640
	<u>2,186,237</u>	<u>2,294,098</u>
Excess of employee and community services expenses over support and revenue	<u>\$ (1,905,324)</u>	<u>\$ (2,014,957)</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:

	2009	2008
Cash and investments	\$ 2,056,334	\$ 1,902,830
Unrestricted net assets	\$ 2,056,334	\$ 1,902,830
Net assets at beginning of year	\$ 1,902,830	\$ 2,118,096
Contributions received	905,656	1,123,167
Interest income	33,163	67,561
Realized gain (loss) on investments, net	(93,283)	7,409
Unrealized gain (loss) on investments, net	122,050	(248,526)
Contribution to the Lighthouse	(459,274)	(633,818)
In-kind expense	(13,904)	(171,859)
Operating expenses allocated from Lighthouse	(340,904)	(359,200)
Net assets at end of year	\$ 2,056,334	\$ 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 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 - 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.

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Note 11 - Danny Lord (Continued)

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

	2009	2008
Investments	\$ 612,760	\$ 604,533
Liability (contribution to ECS Center)	\$ 20,000	\$ -
Unrestricted net assets	\$ 592,760	\$ 604,533
Unrestricted net assets at beginning of the year	\$ 604,533	\$ 689,856
Investment income	15,761	16,267
Transfers to ECS Center	(20,000)	(20,000)
Realized gain (loss) on investments, net	(37,755)	12,221
Unrealized gain (loss) on investments, net	30,221	(93,811)
Unrestricted net assets at end of the year	\$ 592,760	\$ 604,533

Effective December 1, 2009, the Danny Lord Foundation was terminated and all net assets were transferred to the Foundation.

Note 12 - 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, 2009 and 2008 approximately 33% and 38%, respectively, of sales were to two customers. At September 30, 2009 and 2008, approximately 64% and 80% respectively, of trade accounts receivable was due from these customers.

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Note 13 - Fair Value of Financial Instruments

At September 30, 2009 and 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 approximate fair value as discussed in Note 3.