



**Consolidated Financial Statements and Report of  
Independent Certified Public Accountants**

**BRAILLE INSTITUTE OF AMERICA, INC.  
(A California Nonprofit Corporation)**

**June 30, 2011**

**(With Summarized Comparative Financial Information for the Year Ended June 30, 2010)**

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Report of Independent Certified Public Accountants

To the Board of Directors of the  
Braille Institute of America, Inc.

Audit - Tax - Advisory

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We have audited the accompanying consolidated statement of financial positions of the Braille Institute of America, Inc. (the "Institute") as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Braille Institute of America Inc.'s 2010 consolidated financial statements and in our report dated September 14, 2010 we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of Braille Institute of America, Inc. as of June 30, 2011, and the results of its changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Los Angeles, California  
September 16, 2011

Braille Institute of America, Inc.  
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30,  
(In Thousands)

	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 6,080	\$ 5,531
Marketable investment securities (Note 3)	113,567	97,068
Investment in gift annuity contracts (Note 3)	7,674	9,009
Contributions receivable (Note 5)	1,907	-
Accounts receivable	304	363
Prepaid expenses and inventories	410	726
Long-term other investments (Note 6)	205	205
Beneficial interest in trusts	1,945	1,756
Other assets	459	678
Land, buildings and equipment, net (Note 7)	30,854	31,731
TOTAL ASSETS	\$ 163,405	\$ 147,067
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 2,899	\$ 3,190
Pension liability (Note 9)	1,153	4,557
Gift annuity liabilities and benefit payments	4,811	5,919
Total liabilities	8,863	13,666
<b>NET ASSETS</b>		
Unrestricted	125,430	106,836
Temporarily restricted	16,625	14,317
Permanently restricted	12,487	12,248
Total net assets	154,542	133,401
TOTAL LIABILITIES AND NET ASSETS	\$ 163,405	\$ 147,067

The accompanying notes are an integral part of these consolidated financial statements

Braille Institute of America, Inc.  
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2011  
(With Summarized Comparative Financial Information for the Year Ended June 30, 2010)  
(In Thousands)

	2011			2011	2010
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Operating</b>					
<b>Revenues:</b>					
Public support and other revenues					
Public support					
Bequests	\$ 9,635	\$ 1,942	\$ 50	\$ 11,627	\$ 18,721
Trusts	356	26	-	382	408
Contributions	3,500	4,615	-	8,115	3,406
Total public support	<u>13,491</u>	<u>6,583</u>	<u>50</u>	<u>20,124</u>	<u>22,535</u>
Other revenues:					
Investment income	4,678	15	-	4,693	3,819
State library appropriation	-	725	-	725	711
Rent and miscellaneous	33	-	-	33	12
Total other revenues	<u>4,711</u>	<u>740</u>	<u>-</u>	<u>5,451</u>	<u>4,542</u>
Net assets released from restrictions:					
State library	725	(725)	-	-	-
Program and time restrictions	4,289	(4,289)	-	-	-
Total revenues	<u>23,216</u>	<u>2,309</u>	<u>50</u>	<u>25,575</u>	<u>27,077</u>
<b>Expenses:</b>					
Program services					
Educational programs and services	13,774	-	-	13,774	13,876
Library services	3,020	-	-	3,020	3,012
Braille publishing, less revenue of \$86 in 2011 and \$66 in 2010	1,244	-	-	1,244	1,265
Depreciation expense	1,718	-	-	1,718	1,786
Total program services	<u>19,756</u>	<u>-</u>	<u>-</u>	<u>19,756</u>	<u>19,939</u>
Supporting services:					
Administration	701	-	-	701	802
General operations	1,959	-	-	1,959	1,860
Development (fund-raising)	2,883	-	-	2,883	2,697
Public education	1,363	-	-	1,363	1,540
Depreciation expense	127	-	-	127	123
Total supporting services	<u>7,033</u>	<u>-</u>	<u>-</u>	<u>7,033</u>	<u>7,022</u>
Total expenses	<u>26,789</u>	<u>-</u>	<u>-</u>	<u>26,789</u>	<u>26,961</u>
Total change in net assets from operating activities	<u>(3,573)</u>	<u>2,309</u>	<u>50</u>	<u>(1,214)</u>	<u>116</u>
<b>Nonoperating:</b>					
Realized and unrealized investment gains (losses), net	18,594	(1)	189	18,782	8,624
Change in pension liability	3,018	-	-	3,018	(773)
Change in value of beneficial interests	555	-	-	555	(128)
Total change in net assets from nonoperating activities	<u>22,167</u>	<u>(1)</u>	<u>189</u>	<u>22,355</u>	<u>7,723</u>
Total change in net assets	<u>18,594</u>	<u>2,308</u>	<u>239</u>	<u>21,141</u>	<u>7,839</u>
Net assets at beginning of year	<u>106,836</u>	<u>14,317</u>	<u>12,248</u>	<u>133,401</u>	<u>125,562</u>
Net assets at end of year	<u>\$ 125,430</u>	<u>\$ 16,625</u>	<u>\$ 12,487</u>	<u>\$ 154,542</u>	<u>\$ 133,401</u>

The accompanying notes are an integral part of these consolidated financial statements

Braille Institute of America, Inc.  
(A California Nonprofit Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30,  
(In Thousands)

	2011	2010
Cash flows from operating activities:		
Changes in net assets	\$ 21,141	\$ 7,839
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,845	1,909
Investments acquired through stock donation	(1,325)	(9,471)
Increase in beneficial interest	(189)	(77)
Actuarial adjustment for gift annuities	(285)	327
Unrealized gain on investments	(15,457)	(6,324)
Realized gain on investments	(3,399)	(2,209)
Gain on sale of other assets	(32)	-
Contributions for long-term investment in gift annuity contracts	(500)	(311)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable, prepaid expenses and inventories	375	(210)
Increase in grant receivable	(1,907)	-
(Decrease) increase in accounts payable and accrued expenses	(291)	110
Net (decrease) increase in pension liability	(3,404)	735
Net cash used in operating activities	(3,428)	(7,682)
Cash flows from investing activities:		
Capital improvements and purchases of equipment and land	(968)	(1,185)
Proceeds from sale of other assets	34	-
Proceeds from sale of real property	219	-
Purchases of investments	(46,580)	(40,151)
Proceeds from sales of investments	51,595	50,767
Net cash provided by investing activities	4,300	9,431
Cash flows from financing activities:		
Contributions of gift annuity contracts	500	311
Payments of gift annuity contracts	(823)	(897)
Net cash used in financing activities	(323)	(586)
Net increase in cash and cash equivalents	549	1,163
Cash and cash equivalents at beginning of year	5,531	4,368
Cash and cash equivalents at end of year	\$ 6,080	\$ 5,531
Supplemental Cash Flow Information		
Non-cash gifts - securities received	\$ 1,325	\$ 9,471

The accompanying notes are an integral part of these consolidated financial statements

Braille Institute of America, Inc.  
(A California Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2011  
(In Thousands)

NOTE 1 – INSTITUTE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Institute**

Braille Institute of America, Inc. (the “Institute”) is a private, nonprofit institute offering its programs and services at no charge to legally blind men, women and children of all ages. Its educational training, programs and services are directed toward one primary objective – helping those who have lost or never had the gift of sight to lead full, productive lives.

The Institute receives financial support through individual contributions, bequests and foundation grants. Community groups also assist significantly through sponsorship of many events and activities.

**Basis of Reporting**

The consolidated financial statements include the Institute and Braille Institute of America, Inc. Charitable Gift Annuity Fund (the “Fund”) and beneficial interests in charitable trusts.

**Basis of Accounting**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Net Assets**

The Institute reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are the broad limits resulting from the nature of the Institute and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements. Unrestricted net assets include Board-designated funds and realized and unrealized investment gains and losses.

Temporarily Restricted Net Assets

These are net assets resulting from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that expire by passage of time or can be fulfilled and removed by actions of the Institute pursuant to those stipulations. All temporarily restricted net assets are available for general time restrictions related to program activities.

Braille Institute of America, Inc.  
(A California Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
(In Thousands)

NOTE 1 – INSTITUTE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
Continued

**Net Assets (continued)**

Permanently Restricted Net Assets

These are net assets resulting from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the institute. All permanently restricted net assets are available for endowment.

**Non-Operating**

Non-operating revenues and expenses include all realized and unrealized gains and losses on investments, change in value of beneficial interest in trusts, and grants for infrastructure improvements. All other activity is classified as operating revenue and expense.

**Donated Services**

Many individuals have donated time and services to advance the Institute's programs and objectives. In some instances, the value of these services has not been recorded in the consolidated financial statements because they do not meet the requirements for recognition under accounting principles generally accepted in the United States of America. While the value of donated labor is not reflected in the accompanying consolidated financial statements, the financial results of fund-raising and other activities are included.

**Cash and Cash Equivalents**

Short-term investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents. Short-term investments with an original maturity greater than three months, are included in investments. Cash and cash equivalents are reported at cost, which approximates fair value. The Institute maintains cash in various financial institutions that periodically, and as of year-end, exceeds federally insured limits of \$250. Management does not consider this concentration to be a significant credit risk. Certain items which meet the definition of cash equivalents but are part of a larger pool of investments are included in marketable investment securities.

**Marketable Investment Securities**

Marketable investment securities include equity securities, money market funds and bond mutual funds, are valued at fair value. Interest and dividends are accrued as earned or declared.

**Investments in Gift Annuity Contracts**

Investments in gift annuity contracts include U.S. Treasury bills and government bonds with maturities of one year or more. These investments are valued at fair value. The fair values of investments in securities traded on national securities exchanges are valued at the closing price on the last business day of the fiscal year; securities traded on the over-the-counter market are valued at the last reported bid price.

Braille Institute of America, Inc.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
(In Thousands)

NOTE 1 – INSTITUTE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
Continued

**Inventories**

Inventories consist of student store merchandise and press department materials. Inventories are valued at the lower of cost or market on a first-in, first-out (“FIFO”) basis.

**Long-Term Other Investments**

Long-term other investments are carried at the lower of cost or market value, except for oil and gas lease rights, which are carried at nominal values due to major uncertainties inherent in any valuation of future royalty revenues.

Per Accounting Standards Codification (“ASC”) 958, *Not-for-Profit Entities: Scope – Investments*, the Institute records all in-kind donations at their fair value at the time of donation and the Institute continues to report in-kind donations at their carrying value or cost, including oil and gas interests.

**Impairment of Long-Lived Assets**

Management reviews each asset or asset group for impairment whenever events or circumstances indicate that the carrying value of an asset or asset group may not be recoverable. The review of recoverability is based on management’s estimate of the undiscounted future cash flows that are expected to result from the asset’s use and eventual disposition. These cash flows consider factors such as expected future operating income, trends and prospects, as well as, the effects of competition and other factors. If an impairment event exists due to the projected inability to recover the carrying value of an asset or asset group, an impairment loss is recognized to the extent that the carrying value exceeds estimated fair value. No impairment provision was recorded by the Institute during fiscal year 2011.

**Beneficial Interest in Trusts**

The Institute is also a beneficiary of irrevocable split-interest agreements, consisting primarily of charitable remainder trusts and charitable lead trusts administered by other trustees. A receivable is recorded at the estimated fair value of the amount held by the trustee that is due to the Institute. The Institute uses an interest rate commensurate with the risks involved to discount the contribution receivable. The amortization of this discount and changes in assumptions are reflected in the statements of activities and changes in net assets as a change in value of beneficial interest.

**Land, Buildings and Equipment**

Additions to land, buildings and equipment are recorded at cost. Donated assets are recorded at fair value at the time of donation. Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, forty years for the building, generally three to ten years for furniture, equipment and vehicles. The Institute’s policy is to capitalize all asset improvements in excess of \$5 that extend the useful life or increase the utility of the property.

Braille Institute of America, Inc.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
(In Thousands)

NOTE 1 – INSTITUTE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
Continued

**Taxes**

The Institute was organized pursuant to the General Nonprofit Corporation Law of the State of California. The Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Institute is also exempt from California franchise taxes and certain general county real and personal property taxes under Section 23701d of the California Revenue and Taxation Code. However, the Institute is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. Since the Institute had no obligation for unrelated business income tax for the year ended June 30, 2011, no provisions for federal or state income taxes are required.

Tax positions taken related to the Institute's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the Institute would more likely than not be sustained by examination. Accordingly, the Institute has not recorded an income tax liability for uncertain tax benefits. As of June 30, 2011, the Institute's tax years ending June 30, 2007 through June 30, 2011 remain subject to examination.

**Use of Estimates**

The preparation of the 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. While management believes that these estimates are adequate as of June 30, 2011, it is possible that actual results could differ from those estimates.

**Functional Expense Reporting**

The costs of providing program and supporting services have been summarized by function, based on estimates developed by management.

**Accounts Receivable Valuation**

Accounts receivable are considered by management to be fully collectible.

**Revenue and Expense Recognition**

Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate class of net assets. Contributions where donor restrictions are met within the same fiscal year as the contribution is received are included in unrestricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate. An allowance for uncollectible contributions is estimated based upon such factors as prior collection history, type of contribution and nature of fundraising activity. Expenses are recognized when incurred.

Braille Institute of America, Inc.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
(In Thousands)

NOTE 1 – INSTITUTE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
Continued

**Reclassifications**

For comparability, certain amounts for 2010 have been reclassified to conform to the 2011 presentation. Depreciation expense totaling \$1,909, previously reported as non-operating expenses were reclassified and allocated to operating expenses. The reclassification had no effect on total assets or net asset balances previously reported.

**Prior Year's Summarized Financial Information**

The consolidated financial statements include certain prior-year summarized information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute's consolidated financial statements for the year ended June 30, 2010, from which the summarized information was derived.

**New Accounting Pronouncements**

In January 2010, the FASB issued guidance to improve the disclosures related to fair value measurements. The new guidance requires expanded fair value disclosures, including the reasons for significant transfers between Level 1 and Level 2 and the amount of significant transfers into each level disclosed separately from transfers out of each level. For Level 3 fair value measurements, information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements shall be presented separately on a gross basis, rather than as one net number. In addition, clarification is provided about existing disclosure requirements, such as presenting fair value measurement disclosures for each class of assets and liabilities that are determined based on their nature and risk characteristics and their placement in the fair value hierarchy (that is, Level 1, 2, or 3), as opposed to each major category of assets and liabilities, as required in the previous guidance. Disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements will be required for fair value measurement that fall in either Level 2 or Level 3. The new guidance is effective for annual reporting periods beginning after December 15, 2010, except for the disclosures related to the gross presentation of purchases, sales, issuances and settlements for Level 3 fair value measurements, which are effective for reporting periods beginning after December 15, 2011. The expanded disclosures will be included in the Institute's consolidated financial statements effective June 30, 2010, except for the disclosures related to the gross Level 3 presentation, which will be included in the Institute's consolidated financial statements effective June 30, 2012.

Braille Institute of America, Inc.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
(In Thousands)

NOTE 2 – CASH AND CASH EQUIVALENTS

A summary of the composition of cash and cash equivalents follows:

	June 30,	
	2011	2010
Interest-bearing accounts	\$ 5,512	\$ 4,925
Non-interest bearing accounts	560	598
Petty cash	8	8
Total	\$ 6,080	\$ 5,531

NOTE 3 – MARKETABLE INVESTMENT SECURITIES AND INVESTMENTS IN GIFT ANNUITY CONTRACTS

A summary of the composition of the Institute’s marketable investment securities follows:

	June 30,	
	2011	2010
Fixed income funds	\$ 22,073	\$ 14,811
Equity securities	88,066	69,830
Money market funds	3,428	12,427
Total	\$ 113,567	\$ 97,068

A summary of the composition of investments in gift annuity contracts follows:

	June 30,	
	2011	2010
Fixed income funds	\$ 2,970	\$ 5,696
Equity securities	4,376	2,852
Money market funds	328	461
Total	\$ 7,674	\$ 9,009

The Institute holds significant investments in the form of fixed-income and equity securities. Market risk is the risk of a decline in the fair value of the investment portfolio due to adverse financial market conditions. The Institute is exposed to market risk for the total amount of the investments.

Braille Institute of America, Inc.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
(In Thousands)

NOTE 4 – VALUE OF INVESTMENTS

The Institute accounts for its investments at fair value. ASC 820, *Fair Value Measurements*, defines fair value, established a framework used to measure fair value, and expands disclosures about fair value measurements. This standard prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurement based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

*Level 1* – Quoted prices in active markets for identical investments as of the reporting date, without adjustment. The types of investments in Level 1 include listed equities held in the name of the Institute and exclude listed equities and other securities held indirectly through commingled funds.

*Level 2* – Valuations based on inputs, including broker quotes, in markets that are not active or for which all significant inputs are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

*Level 3* – Valuations based on inputs that are both significant to the fair value measurement and unobservable, as they trade infrequently and therefore have little or no price transparency. These inputs into the determination of fair value require significant management judgment or estimation and typical investments of the category are privately held investments and partnership interests.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Institute evaluates its hierarchy disclosures each reporting period and based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Institute expects that changes in classifications between different levels will be rare.

The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investment. For example, convertible securities are generally high quality and liquid; however, they would be reflected as Level 2 because the inputs used to determine fair value may not always be quoted prices in an active market.

The Institute's valuation methodologies used for mutual funds measured at fair value is based on net asset value (NAV) of shares held by the Institute at year end. There have been no changes in the methodologies used at June 30, 2011. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Braille Institute of America, Inc.  
(A California Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
(In Thousands)

NOTE 4 – VALUE OF INVESTMENTS – Continued

The following table summarizes the valuation of the Institute's investments by the ASC 820 fair value hierarchy levels as of June 30, 2011:

Asset class	Level 1	Level 2	Level 3	Total
Mutual funds / exchange traded funds:				
Money market funds (a)	\$ -	\$ 3,757	\$ -	\$ 3,757
Equity - international (b)	15,012	-	-	15,012
Equity - small-mid cap domestic (c)	3,232	-	-	3,232
Equity - large cap domestic (d)	1,327	-	-	1,327
Equity - real estate (e)	670	-	-	670
Fixed income - domestic (f)	11,243	-	-	11,243
Fixed income - international (g)	6,422	-	-	6,422
Separately managed accounts:				
Equity - large cap domestic (d)	26,847	-	-	26,847
Equity - small-mid cap domestic (h)	3,470	-	-	3,470
Fixed income - domestic (i)	7,378	-	-	7,378
Equity - international (j)	-	10,997	-	10,997
Alternative investment:				
Hedge fund/ real assets (k)	-	-	30,886	30,886
	<u>\$ 75,601</u>	<u>\$ 14,754</u>	<u>\$ 30,886</u>	<u>\$ 121,241</u>

The following table summarizes the valuation of the Institute's investments by the ASC 820 fair value hierarchy levels as of June 30, 2010:

Asset class	Level 1	Level 2	Level 3	Total
Mutual funds / exchange traded funds:				
Money market funds (a)	\$ -	\$ 12,888	\$ -	\$ 12,888
Equity - international (b)	9,160	-	-	9,160
Equity - small-mid cap domestic (c)	1,862	-	-	1,862
Fixed income - domestic (f)	11,414	-	-	11,414
Separately managed accounts:				
Equity - large cap domestic (d)	23,947	-	-	23,947
Equity - small-mid cap domestic (h)	3,481	-	-	3,481
Fixed income - domestic (i)	9,094	-	-	9,094
Equity - international (j)	-	8,483	-	8,483
Alternative investment:				
Hedge fund/ real assets (k)	-	-	25,748	25,748
	<u>\$ 58,958</u>	<u>\$ 21,371</u>	<u>\$ 25,748</u>	<u>\$ 106,077</u>

Braille Institute of America, Inc.  
(A California Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
(In Thousands)

NOTE 4 – VALUE OF INVESTMENTS – Continued

- (a) Money market funds - Money market funds seek to provide current income while maintaining liquidity and a stable per share price.
- (b) Equity – international - Comprised of mutual funds investing in equity securities of non-U.S. companies. While generally limited in their use, the funds may invest in derivative securities.
- (c) Equity – small-mid cap domestic - Comprised of mutual funds investing in common stocks of U.S. companies with market capitalizations similar to companies in the Russell 2500 Index.
- (d) Equity – large cap domestic - Comprised primarily of common stocks and mutual funds of U.S. companies with market capitalizations similar to companies in the Russell 1000 Index.
- (e) Equity – real estate – The Fund seeks to provide income and capital growth by investing primarily in publicly traded securities issued by real estate investment trust.
- (f) Fixed income – domestic - Comprised of mutual funds investing in fixed income instruments of varying maturities issued primarily by U.S. public and private-sector entities and secondarily by non-U.S. entities. Fixed income instruments include investment grade bonds and high yield securities but may also be represented by derivatives including forwards, options, futures, swaps and asset-backed securities. Securities of varying maturities are permitted as well as those denominated in currencies other than the U.S. dollar.
- (g) Fixed income – international – The Fund provides investors with a tactical asset allocation and seeks to provide long-term real returns. The Fund invests in actively managed mutual funds in an effort to achieve broad asset class diversification including global bonds and stocks, real estate and commodities.
- (h) Equity – small-mid cap domestic - Comprised primarily of common stocks of U.S. companies with market capitalizations similar to companies in the Russell 2500 Index.
- (i) Fixed income – domestic - Comprised of bonds issued by the U.S. government and government agencies. These investments included some mortgage-backed securities, which have subsequently been transferred into other investment vehicles.
- (j) Equity – international - Comprised of funds investing in equity securities of non-U.S. companies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
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NOTE 4 - VALUE OF INVESTMENTS - Continued

- (k) Hedge fund / real assets - The investment objective is to seek capital appreciation by creating a diversified portfolio of private market strategies, including investments selected by third party investment managers. The allocation will include exposure to a mix of absolute return and long-short strategies. These may include, but are not limited to: event arbitrage, distressed, convertible arbitrage, fixed income arbitrage, US equity long-short, short selling and /or global/ international equity long-short.

The changes in investments classified as Level 3 for the year ended June 30, 2011 are as follows:

Beginning balance	\$	25,748
Purchases, sales and settlements, net		1,115
Unrealized gain		4,023
Transfers in and out of Level 3, net		-
Ending balance	\$	<u>30,886</u>

Level 3 net realized and unrealized gain of \$4,023 is included in the Institute's statement of activities for the year ended June 30, 2011.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Certain promises to give are recorded after discounting, at the prime rate of 3.25% at June 30, 2011, to the present value of the future cash flows. At June 30, 2011, unconditional promises to give are expected to be realized in the following periods:

In one year or less	\$	1,000
Due between one and five years		<u>1,000</u>
Total		2,000
Less discount		(93)
Net receivable at June 30, 2011	\$	<u>1,907</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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NOTE 6 – LONG-TERM OTHER INVESTMENTS

	June 30,	
	2011	2010
Long-term other investments, at cost		
Oil and gas lease rights	\$ 112	\$ 112
Improved real estate	39	39
Unimproved real estate	54	54
Total	\$ 205	\$ 205

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT, NET

Land, buildings and equipment was comprised of the following at June 30, 2011 and 2010:

	June 30,	
	2011	2010
Land	\$ 10,250	\$ 9,984
Buildings and improvements	49,905	49,842
Equipment	11,090	11,925
Construction in progress	97	16
Total land, buildings and equipment	71,342	71,767
Less accumulated depreciation	(40,488)	(40,036)
Total land, buildings and equipment, net	\$ 30,854	\$ 31,731

NOTE 8 – TAX-SHELTERED SAVINGS PLAN

Effective April 1, 1990, the Institute adopted a tax-sheltered savings plan for its employees. Employees may defer up to \$16.5 annually. The Institute will match 100% of the participant's deferral amount up to \$2.4. Participants are 100% vested in their contributions, the Institute's matching contribution and the non-elective contribution. The Institute's contribution was \$907 and \$926 in December 31, 2010 and 2009, respectively.

NOTE 9 – RETIREMENT PLAN

The Institute has a defined benefit retirement plan (the "Plan") that covers substantially all of its employees. The benefits are based on years of service and the employee's compensation during employment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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NOTE 9 – RETIREMENT PLAN - Continued

The plan was frozen to future benefit accruals effective January 1, 2008. All active participants as of January 1, 2008 are 100% vested in their normal retirement benefit, if eligible.

Amounts related to defined benefit plans recognized in the financial statements are determined on an actuarial basis. Three of the more critical assumptions in the actuarial calculations are the discount rate for determining the current value of plan benefits, the assumption for the rate of increase in future compensation levels and the expected rate of return on plan assets.

**Funded Status**

An accumulated pension asset measured against the obligation for pension benefits represents the funded status of a given plan. The funded status of the Institute's sponsored defined benefit plans is presented in the table below as of June 30, 2011 and 2010:

	2011	2010
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 31,912	\$ 28,465
Interest cost	1,791	1,804
Actuarial gain	1,645	2,949
Benefits paid	(1,430)	(1,306)
Benefit obligation at end of year	33,918	31,912
Change in plan assets		
Fair value of plan assets at beginning of year	27,355	24,643
Actual return gain on plan assets	5,240	2,643
Employer contribution	1,600	1,375
Benefits paid	(1,430)	(1,306)
Fair value of plan assets at end of year	32,765	27,355
Funded status at end of year	\$ (1,153)	\$ (4,557)
Amount recognized in the statement of activities change in additional minimum liability	\$ (3,018)	\$ 773
Net amount recognized	\$ (3,018)	\$ 773

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
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NOTE 9 – RETIREMENT PLAN - Continued

Additional information for the pension plan with an accumulate benefit obligation in excess of plan assets:

	<u>2011</u>	<u>2010</u>
Projected benefit obligation	<u>\$ 33,918</u>	<u>\$ 31,912</u>
Accumulated benefit obligation	<u>\$ 33,918</u>	<u>\$ 31,912</u>
Fair value of plan assets	<u>\$ 32,765</u>	<u>\$ 27,355</u>
Additional information:		
Increase in minimum liability included in other non-operating income	<u>\$ 11,560</u>	<u>\$ 14,578</u>

**Assumptions**

Assumptions used to determine benefit obligation at June 30:

Discount rate	5.75%	5.75%
Rate of compensation increase	0.00%	0.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30:

Discount rate	5.75%	5.75%
Expected long-term return on plan assets	8.00%	8.00%
Rate of compensation increase	0.00%	0.00%

**Plan Assets**

The primary investment objective of the Plan is to generate a long-term rate of return on assets that exceeds selected performance benchmarks for each asset category and the expected rate of return used in the valuation of the benefit obligation. The assumed rate of return on Plan assets represents an estimate of long-term returns available to investors who hold a mixture of equities and fixed income securities and considers returns on comparable asset classes (both historical and forecasted).

Investment allocation for the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Equity securities	<u>60.00%</u>	<u>54.00%</u>
Fixed income securities	<u>40.00%</u>	<u>46.00%</u>
	<u>100.00%</u>	<u>100.00%</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
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NOTE 9 – RETIREMENT PLAN - Continued

The Plan may invest in equities and fixed income assets, subject to standards of fiduciary prudence for a defined benefit pension plan portfolio. The current long-term investment allocation target is 60% equities and 40% fixed income with maximum allocation of 70% and 50%, respectively. Investments are diversified according to economic sector, industry, number of holdings and other investment characteristics to minimize risk exposure.

The Institute was not required to make a contribution to the Plan for fiscal year ended June 30, 2011.

Estimated future benefit payments for vested participants, based on actuarial assumptions, are as follows in fiscal year ending June 30:

<u>Year ended June 30,</u>	
2012	\$ 1,590
2013	1,719
2014	1,871
2015	2,016
2016	2,113
2017-2021	11,558

NOTE 10 – CHARITABLE GIFT ANNUITY FUND

The Institute offers a charitable remainder annuities program for those who desire to donate. Institute annuities are written under authority granted to it by the Insurance Commissioner of the State of California. Annuity assets are held by a bank trustee with a reserve adequate to meet estimated future payments under its outstanding annuity contracts. Payments are made from these assets to the annuity beneficiary in accordance with the contract. The gift annuity liabilities are based on the present value of future payments; contracts issued prior to January 1, 2005, are discounted at 6% and estimated lives according to the 1983 Group Annuity Mortality Tables. Contracts issued after January 1, 2005 are discounted 4.5% and using the Annuity 2000 Mortality Table. Due to the separate entity concept inherent in these types of gifts, the Institute produces separate financial statements for this fund. However, the Institute is required to reflect its beneficial interest in annuity contracts in its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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NOTE 11 – ENDOWMENT FUNDS

In August 2008, the Financial Accounting Standards Board issued new accounting guidance on endowments of not-for-profit organizations within ASC 205. This guidance provides for not-for-profit organizations concerning the net asset classifications of donor-restricted endowment funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). In addition, the guidance requires enhanced disclosures for all endowment funds. California adopted UPMIFA effective January 1, 2009. The Institute adopted the accounting standard for the year ended June 30, 2009. There is no impact of the adoption as the Institute has historically recognized all investment income into temporarily restricted net assets and releases the restriction as amounts are spent.

The Board of Directors has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institution in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Institute and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Institute
- The investment policies of the Institute

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
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NOTE 11 – ENDOWMENT FUNDS – Continued

The following is the endowment net asset composition by type of fund as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 12,487	\$ 12,487
Board-designated endowment funds	-	-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,487</u>	<u>\$ 12,487</u>

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 12,248	\$ 12,248
Investment return:				
Interest and dividend income	-	2,465	-	2,465
Net realized and unrealized gains	-	-	189	189
Bequests and contributions	-	-	50	50
Net assets released from restriction	2,465	(2,465)	-	-
Endowment net assets, end of year	<u>\$ 2,465</u>	<u>\$ -</u>	<u>\$ 12,487</u>	<u>\$ 14,952</u>

NOTE 12 – NET ASSETS

At June 30, 2011, total temporarily restricted net assets of approximately \$16,625 are available for programs and services such as adult education and counseling, low vision rehabilitation services, library services, community outreach, Braille publishing, and child development. At June 30, 2011, \$5,014 was released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

At June 30, 2011, permanently restricted net assets of \$12,487 are held in endowment and when investment income is earned on these funds it is made available for programs and services as noted herein.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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NOTE 13 – COMMITMENTS AND CONTINGENCIES

In the normal course of operations, the Institute is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the opinion that liabilities, if any, arising from such litigation and examinations would not have a material effect on the Institute's financial position.

NOTE 14 – SUBSEQUENT EVENTS

The Institute evaluated its June 30, 2011 consolidated financial statements for subsequent events through September 16, 2011, the date the consolidated financial statements were available to be issued. The Institute is not aware of any subsequent events which would require recording or disclosure in the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2011  
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NOTE 14 – FUNCTIONAL EXPENSES

The functional expenses for June 30, 2011 and 2010 are as follows:

	Library Services	Educational Programs and Services	Braille Publishing	Public Education	Administration and General Operations	Developmen t (Fund- Raising)	Total Current Operating Expenditures 2011	Total Current Operating Expenditures 2010
Salaries	\$ 1,248	\$ 7,343	\$ 629	\$ 447	\$ 1,212	\$ 1,109	\$ 11,988	\$ 12,302
Employment benefits	537	3,172	273	194	534	478	5,188	5,103
Community relations	17	138	-	203	-	122	480	556
Contract labor, recruitment and training	67	209	13	47	23	16	375	351
Direct mail	-	-	-	-	-	878	878	844
Dues, subscriptions and meetings	8	69	10	5	92	21	205	189
Instructional programs, services and supplies	75	380	-	-	1	-	456	408
Materials and supplies	76	91	16	24	87	26	320	331
Plant and equipment maintenance	528	618	141	36	120	66	1,509	1,552
Professional services	-	-	-	-	500	-	500	488
Publications	22	-	136	283	-	121	562	493
Travel and transportation	6	580	6	1	5	2	600	563
Utilities, taxes and insurance	436	1,174	106	123	86	44	1,969	1,938
Less: Braille publishing income	-	-	(86)	-	-	-	(86)	(66)
Total before depreciation expenses	<u>3,020</u>	<u>13,774</u>	<u>1,244</u>	<u>1,363</u>	<u>2,660</u>	<u>2,883</u>	<u>24,944</u>	<u>25,052</u>
Depreciation expense	<u>812</u>	<u>904</u>	<u>2</u>	<u>31</u>	<u>57</u>	<u>39</u>	<u>1,845</u>	<u>1,909</u>
Total functional expenses	<u>\$ 3,832</u>	<u>\$ 14,678</u>	<u>\$ 1,246</u>	<u>\$ 1,394</u>	<u>\$ 2,717</u>	<u>\$ 2,922</u>	<u>\$ 26,789</u>	<u>\$ 26,961</u>