



Grant Thornton

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

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

June 30, 2016

(With Summarized Comparative Financial Information for the Year Ended June 30, 2015)

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Grant Thornton

Report of Independent Certified Public Accountants

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Report on the financial statements

We have audited the accompanying consolidated financial statements of the Braille Institute of America, Inc. (the “Institute”), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Braille Institute of America, Inc. as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Report on 2015 summarized comparative information

We have previously audited the Institute's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 18, 2015. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Los Angeles, California
September 2, 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2016
(With Summarized Comparative Financial Information as of June 30, 2015)
(In Thousands)

	2016	2015
ASSETS		
Cash and cash equivalents (Note 2)	\$ 6,292	\$ 5,073
Marketable investment securities (Note 3)	116,005	112,415
Investments in gift annuity contracts (Note 3)	5,961	6,363
Contributions receivable (Note 5)	819	869
Accounts receivable	280	223
Prepaid expenses and inventories	402	365
Long-term other investments (Note 6)	166	205
Beneficial interest in trusts	1,734	1,805
Other assets	417	417
Land held for sale (Note 7)	-	4,951
Land, buildings and equipment, net (Note 7)	26,634	27,301
TOTAL ASSETS	\$ 158,710	\$ 159,987
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,968	\$ 3,615
Pension liabilities (Note 9)	2,001	940
Gift annuity liabilities and benefit payments	4,060	4,266
Total liabilities	9,029	8,821
Net assets		
Unrestricted	114,894	122,863
Temporarily restricted	14,990	15,468
Permanently restricted	19,797	12,835
Total net assets	149,681	151,166
TOTAL LIABILITIES AND NET ASSETS	\$ 158,710	\$ 159,987

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, 2016
(With Summarized Comparative Financial Information for the Year Ended June 30, 2015)
(In Thousands)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating:					
Revenues:					
Public support and other revenues					
Public support:					
Bequests	\$ 5,754	\$ 3,195	\$ -	\$ 8,949	\$ 12,344
Trusts	408	26	-	434	408
Contributions	2,108	1,828	7,033	10,969	4,551
Total public support	<u>8,270</u>	<u>5,049</u>	<u>7,033</u>	<u>20,352</u>	<u>17,303</u>
Other revenues:					
Investment income	5,042	38	-	5,080	6,148
State library appropriation	-	692	-	692	719
Rent and miscellaneous	46	-	-	46	70
Braille Challenge Grant	152	-	-	152	157
Total other revenues	<u>5,240</u>	<u>730</u>	<u>-</u>	<u>5,970</u>	<u>7,094</u>
Net assets released from restrictions:					
State library	692	(692)	-	-	-
Program and time restrictions	5,564	(5,564)	-	-	-
Total revenues	<u>19,766</u>	<u>(477)</u>	<u>7,033</u>	<u>26,322</u>	<u>24,397</u>
Expenses:					
Program services:					
Educational programs and services	12,390	-	-	12,390	12,790
Library services	3,013	-	-	3,013	3,107
Braille publishing, net of revenue of \$ 0 in 2016 and \$1 in 2015	926	-	-	926	1,099
Depreciation expense	1,431	-	-	1,431	1,410
Total program services	<u>17,760</u>	<u>-</u>	<u>-</u>	<u>17,760</u>	<u>18,406</u>
Supporting services:					
Administration	801	-	-	801	836
General operations	1,730	-	-	1,730	1,495
Philanthropy (fund-raising)	3,683	-	-	3,683	3,699
Marketing and communications	938	-	-	938	979
Depreciation expense	108	-	-	108	90
Total supporting services	<u>7,260</u>	<u>-</u>	<u>-</u>	<u>7,260</u>	<u>7,099</u>
Total expenses	<u>25,020</u>	<u>-</u>	<u>-</u>	<u>25,020</u>	<u>25,505</u>
Total change in net assets from operating activities	<u>(5,254)</u>	<u>(477)</u>	<u>7,033</u>	<u>1,302</u>	<u>(1,108)</u>
Nonoperating:					
Realized and unrealized investment gains (losses), net	(1,891)	(1)	(71)	(1,963)	10
Gain on sale of real property and other assets	2,543	-	-	2,543	-
Change in pension liability	(2,933)	-	-	(2,933)	(1,374)
Change in value of beneficial interests in trusts	(434)	-	-	(434)	(294)
Total change in net assets from nonoperating activities	<u>(2,715)</u>	<u>(1)</u>	<u>(71)</u>	<u>(2,787)</u>	<u>(1,658)</u>
Total change in net assets	<u>(7,969)</u>	<u>(478)</u>	<u>6,962</u>	<u>(1,485)</u>	<u>(2,766)</u>
Net assets at beginning of year	122,863	15,468	12,835	151,166	153,932
Net assets at end of year	<u>\$ 114,894</u>	<u>\$ 14,990</u>	<u>\$ 19,797</u>	<u>\$ 149,681</u>	<u>\$ 151,166</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, 2016
(With Summarized Comparative Financial Information for the Year Ended June 30, 2015)
(In Thousands)

	2016	2015
Cash flows from operating activities:		
Changes in net assets	\$ (1,485)	\$ (2,766)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,539	1,500
Change in pension liability	1,061	719
Investments acquired through stock donation	(9)	(44)
Decrease in beneficial interest	72	68
Actuarial adjustment for gift annuities	570	382
Unrealized loss on investments	3,539	2,735
Realized gain on investments	(1,648)	(2,747)
(Gain) on sale of real property and other assets	(2,543)	(68)
Contributions for long-term investment in gift annuity contracts	(570)	(165)
Permanently restricted contributions	(7,033)	-
Changes in operating assets and liabilities:		
(Increase) in accounts receivable, prepaid expense and inventories	(95)	(280)
Decrease (increase) in contributions receivable	51	(551)
(Decrease) increase in accounts payable and accrued expenses	(648)	808
Net cash used in operating activities	(7,199)	(409)
Cash flows from investing activities:		
Proceeds from sale of land and other assets	7,523	69
Capital improvements and purchases of equipment and land	(873)	(1,177)
Purchases of investments	(15,430)	(3,105)
Proceeds from sale of investments	10,371	8,332
Net cash provided by investing activities	1,591	4,119
Cash flows from financing activities:		
Contributions of gift annuity contracts	570	165
Payments of gift annuity contracts	(776)	(822)
Payments of permanently restricted contributions	7,033	-
Net cash provided by financing activities	6,827	-
Net cash used in financing activities	-	(657)
Net increase in cash and cash equivalents	1,219	3,053
Cash and cash equivalents at beginning of year	5,073	2,020
Cash and cash equivalents at end of year	\$ 6,292	\$ 5,073
Supplemental Cash Flow Information		
Non-cash gifts - securities received	\$ 9	\$ 44

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, 2016
(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 (“US GAAP”).

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, 2016
(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 change in the pension liability. 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 US GAAP. 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 which are valued at net asset value ("NAV") do not have any future commitments, redemption or lock up periods.

Investments for Gift Annuity Contracts

Investments for 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.
(A California Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
(In Thousands)

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

Inventories

Inventories consist of 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 uncertainties inherent in any valuation of future royalty revenues.

In accordance with Financial Accounting Standards Board (“FASB”) 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 was recorded by the Institute during fiscal year 2016.

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 consolidated statement of activities as a change in value of beneficial interest.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
(In Thousands)

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

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.

Land Held for Sale

A property is classified as held for sale when certain criteria, as set forth under ASC 360-15, are met. At such time, the respective assets and liabilities are presented related to the property held for sale separately on the statement of financial position and cease to record depreciation and amortization expense. Properties held for sale are reported at the lower of their carrying value or their estimated fair value less the estimated costs to sell.

Taxes

The Institute was organized pursuant to the General Nonprofit Corporation Law of the State of California. The Institute has been recognized by the Internal Revenue Service as an organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Institute has also been recognized by the California Franchise Tax Board as an organization that is exempt from California franchise and income taxes under Section 23701d of the California Revenue and Taxation Code. However, the Institute is subject to income taxes on 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, 2016, 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, 2016 and no material change is anticipated for the 12 months following June 30, 2016. As of June 30, 2016, the Institute's federal returns for tax years ending June 30, 2013 through June 30, 2015 and state returns for June 30, 2012 through June 30, 2015 remain open and subject to examination. Returns for the period ended June 30, 2016 will be filed by the statutory due dates.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
(In Thousands)

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

Summarized Information

The consolidated financial statements include certain prior-year summarized consolidated financial information in total, but not by net asset category. 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, 2015, from which the summarized information was derived.

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. While management believes that these estimates are adequate as of June 30, 2016, 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.
(A California Nonprofit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
(In Thousands)

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

Recent Accounting Pronouncements

In January 2015, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2015-01, *Income Statement – Extraordinary and Unusual Items (Subtopic 225-10)*. The amendments in the update eliminate from U.S. GAAP the concept of extraordinary items. The adoption of ASU No. 2015-01 is effective prospectively for fiscal years beginning after December 15, 2015; however, retrospective application to all prior periods presented upon the date of adoption is permitted. The adoption of ASU No. 2015-01 is not expected to have a material effect on the Institute’s financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. The guidance specifically clarifies how investments valued using the net asset value (NAV) practical expedient within the fair value hierarchy should be classified. The ASU was issued in order to address diversity in practice. The amended standard’s key position exempts investments measured using the NAV practical expedient from categorization within the fair value hierarchy and related disclosures. The new guidance is effective for the Institute for the year ending June 30, 2017, with early adoption permitted.

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The guidance is intended to improve how a not-for-profit (NFP) entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity, financial performance and cash flows. The main provisions of this update require an NFP to do the following:

- Present net assets in two classes instead of three – net assets with donor restrictions and net assets without donor restrictions.
- Continue to present the statement of cash flows using either direct or indirect methods but no longer require the presentation of the indirect method (reconciliation) if using the direct method.
- Provide enhance disclosures about:
 - Amounts and purposes of governing board designations;
 - Composition of net assets with donor restrictions and how the restrictions affect the use of resources;
 - Qualitative information about how an NFP manages its liquid resources;
 - Qualitative information about the availability of financial assets;
 - Expenses in both their natural and functional classes;
 - Description of cost allocation methods; and
 - Information about underwater endowments disclosing the NFP’s policy, aggregate fair value of the funds, aggregate value of the original gift amount and aggregate amount by which the funds are underwater.

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

For the year ended June 30, 2016
(In Thousands)

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

Recent Accounting Pronouncements (continued)

- Report investment return net of external and direct internal investment expenses without disclosure of the netted expenses.
- Use of the “placed-in-service” approach for reporting restriction releases for gifts used to acquire or construct long-lived assets.

The new guidance is effective for annual reporting periods beginning after December 15, 2017. The Institute is in the process of evaluating the impact of this standard on its operations.

NOTE 2 - CASH AND CASH EQUIVALENTS

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

	June 30,	
	2016	2015
Interest-bearing accounts	\$ 4,664	\$ 3,416
Non-interest bearing accounts	1,622	1,651
Petty cash	6	6
Total	\$ 6,292	\$ 5,073

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,	
	2016	2015
Fixed income funds	\$ 27,763	\$ 27,607
Real estate	11,184	9,426
Equity securities	76,962	75,292
Money market funds	96	90
Total	\$ 116,005	\$ 112,415

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
(In Thousands)

NOTE 3 - MARKETABLE INVESTMENT SECURITIES AND INVESTMENTS IN GIFT
ANNUITY CONTRACTS - Continued

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

	June 30,	
	2016	2015
Fixed income funds	\$ 2,157	\$ 2,255
Real Estate	623	539
Equity securities	2,999	3,319
Money market funds	182	250
Total	<u>\$ 5,961</u>	<u>\$ 6,363</u>

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.

NOTE 4 - FAIR VALUE OF INVESTMENTS

The Institute accounts for its investments at fair value. ASC 820, *Fair Value Measurements*, defines fair value, establishes 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 for similar assets or liabilities as of the reporting date.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
(In Thousands)

NOTE 4 - FAIR VALUE OF INVESTMENTS - Continued

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 Institute's valuation methodologies used for mutual funds measured at fair value is based on NAV of shares held by the Institute at year end. There have been no changes in the methodologies used at June 30, 2016.

Mutual funds – Valued at the daily closing price as reported by the fund. The funds and accounts held by the Institute are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds and accounts are required to publish their daily net asset value (“NAV”) and to transact at that price. The funds and accounts held by the Institute are deemed to be actively traded. The money market funds are valued at the NAV of shares held by the Institute at year end. The funds attempt to stabilize the NAV of its shares at \$1.00 by valuing the portfolio securities using the amortized cost method. The funds calculate a market-based NAV per share on a periodic basis. The funds do not guarantee that its NAV will always remain at \$1.00 per share. Shares can be redeemed on a same day basis but only directly from the funds. Such transactions do not constitute an active market. Therefore, the funds are classified as Level 2.

Separately managed accounts – Valued at the daily closing price as reported by the investment manager. To the extent that they are actively traded at a securities exchange, they are valued at quoted prices from the applicable exchange and are classified as Level 1. To the extent that valuation adjustments are applied to these securities, they are classified as Level 2.

Alternative investment – Valued based on NAV per share (or its equivalent) of the underlying fund as provided by the investment manager.

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, 2016
(In Thousands)

NOTE 4 - FAIR 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, 2016:

Asset class	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds / exchange traded funds:				
Money market funds (a)	\$ -	\$ 278	\$ -	\$ 278
Equity - international (b)	29,730	84	-	29,814
Equity - small-mid cap domestic (c)	537	44	-	581
Equity - large cap domestic (d)	42,194	103	-	42,297
Equity - real estate (e)	11,542	265	-	11,807
Fixed income - domestic (f)	29,802	118	-	29,920
Separately managed accounts:				
Equity - large cap domestic (d)	4	-	-	4
Balanced Index Fund (g)	7,265	-	-	7,265
	<u>\$ 121,074</u>	<u>\$ 892</u>	<u>\$ -</u>	<u>\$ 121,966</u>

The following table summarizes the valuation of the Institute's investments by the ASC 820 fair value hierarchy levels as of June 30, 2015:

Asset class	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds / exchange traded funds:				
Money market funds (a)	\$ -	\$ 340	\$ -	\$ 340
Equity - international (b)	32,962	24	-	32,986
Equity - small-mid cap domestic (c)	624	13	-	637
Equity - large cap domestic (d)	44,956	29	-	44,985
Equity - real estate (e)	9,730	234	-	9,964
Fixed income - domestic (f)	29,828	34	-	29,862
Separately managed accounts:				
Equity - large cap domestic (d)	4	-	-	4
	<u>\$ 118,104</u>	<u>\$ 674</u>	<u>\$ -</u>	<u>\$ 118,778</u>

(a) Money market funds – Money market funds seek to provide current income while maintaining liquidity and a stable per share price.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
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NOTE 4 - FAIR VALUE OF INVESTMENTS - Continued

- (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 trusts.
- (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) Vanguard Balanced Index Fund seeks – with 60% of its assets – to track the investment performance of a benchmark index that measures the investment return of the overall U.S. stock market. With 40% of its assets, the fund seeks to track the investment performance of a broad, market-weighted bond index.

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%, to the present value of the future cash flows. At June 30, 2016, unconditional promises are expected to be realized in the following period:

In one year or less	\$	752
Due between one and five years		98
Total		<u>850</u>
Less discount		<u>(31)</u>
Net receivable at June 30, 2016	\$	<u><u>819</u></u>

No allowance has been recorded as of June 30, 2016 as the Institute expect to collect all outstanding receivable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
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NOTE 6 - LONG-TERM OTHER INVESTMENTS

	June 30,	
	2016	2015
Long-term other investments, at cost		
Oil and gas lease rights	\$ 112	\$ 112
Improved real estate	-	39
Unimproved real estate	54	54
Total	\$ 166	\$ 205

NOTE 7 - LAND, BUILDINGS, EQUIPMENT AND LAND HELD FOR SALE, NET

Land held for sale, land, buildings and equipment was comprised of the following at June 30, 2016 and 2015:

	June 30,	
	2016	2015
Land	\$ 9,984	\$ 9,883
Buildings and improvements	51,466	51,065
Equipment	11,288	11,353
Land held for sale	-	4,951
Construction in progress	239	103
Total land, buildings and equipment	72,977	77,355
Less accumulated depreciation	(46,343)	(45,103)
Total land, buildings, equipment, and land held for sale, net	\$ 26,634	\$ 32,252

Orange County land was sold on 8/12/2015 with cash proceeds of \$7,065 and a net gain of \$2,113.

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 \$17.5 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 year to date accrued contribution was \$409 and \$402 for the years ended June 30, 2016 and 2015, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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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.

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 consolidated 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 increases 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 plan is presented in the table below as of June 30, 2016 and 2015:

	2016	2015
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 41,704	\$ 41,009
Interest cost	1,726	1,700
Actuarial loss	6,392	1,114
Benefits paid	(3,681)	(2,118)
Benefit obligation at end of year	46,141	41,705
Change in Plan assets		
Fair value of Plan assets at beginning of year	40,765	40,788
Actual return gain on Plan assets	4,648	895
Employer contribution	2,408	1,200
Benefits paid	(3,681)	(2,118)
Fair value of Plan assets at end of year	44,140	40,765
Funded status at end of year	\$ (2,001)	\$ (940)
Amount recognized in the consolidated statement of activities for change in pension liability	\$ 2,933	\$ 1,374

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
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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:

	2016	2015
Projected benefit obligation	\$ 46,141	\$ 41,705
Accumulated benefit obligation	\$ 46,141	\$ 41,705
Fair value of Plan assets	\$ 44,140	\$ 40,765
Additional information:		
Cumulative increase in minimum liability recognized directly in net assets	\$ 16,311	\$ 13,378

Assumptions

Assumptions used to determine benefit obligation at June 30:

	2016	2015
Discount rate	3.35%	4.25%
Rate of compensation increase	N/A	N/A

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

	2016	2015
Discount rate	3.35%	4.25%
Expected long-term return on plan assets	5.75%	6.00%
Rate of compensation increase	N/A	N/A

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 as of June 30, is as follows:

	2016	2015
Equity securities	22%	26%
Fixed income securities	78%	74%
	100%	100%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
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NOTE 9 - RETIREMENT PLAN - Continued

The following table summarizes the valuation of the Plan's investments by the ASC 820 fair value hierarchy levels as of June 30, 2016:

Asset class	Level 1	Level 2	Level 3	Total
Money market funds	\$ -	\$ 203	\$ -	\$ 203
Equity - international	3,058	-	-	3,058
Equity - large cap domestic	6,668	-	-	6,668
Fixed income - domestic	34,211	-	-	34,211
	<u>\$ 43,937</u>	<u>\$ 203</u>	<u>\$ -</u>	<u>\$ 44,140</u>

The following table summarizes the valuation of the Plan's investments by the ASC 820 fair value hierarchy levels as of June 30, 2015

Asset class	Level 1	Level 2	Level 3	Total
Money market funds	\$ -	\$ 825	\$ -	\$ 825
Equity - international	3,365	-	-	3,365
Equity - large cap domestic	6,529	-	-	6,529
Fixed income - domestic	30,046	-	-	30,046
	<u>\$ 39,940</u>	<u>\$ 825</u>	<u>\$ -</u>	<u>\$ 40,765</u>

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 and maximum allocation are both 25% equities and 75% fixed income. 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, 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
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NOTE 9 - RETIREMENT PLAN - Continued

Estimated future benefit payments for vested participants, based on actuarial assumptions, are as follows:

<u>Year ending June 30,</u>		
2017	\$	2,249
2018	\$	2,311
2019	\$	2,365
2020	\$	2,397
2021	\$	2,438
2022-2026	\$	12,749

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 used estimated lives according to the 1983 Group Annuity Mortality Tables. Contracts issued after January 1, 2005 are discounted at 4.5% and use 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.

NOTE 11 - ENDOWMENT FUNDS

In August 2008, the FASB issued new accounting guidance on endowments of not-for-profit organizations within ASC 205. This guidance provides for not-for-profit organizations on 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
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NOTE 11 - ENDOWMENT FUNDS - Continued

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

The following is the endowment net asset composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 19,797	\$ 19,797
Total endowment funds	\$ -	\$ -	\$ 19,797	\$ 19,797

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
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NOTE 11 - ENDOWMENT FUNDS - Continued

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 12,835	\$ 12,835
Investment return:				
Interest and dividend income	-	410	-	410
Net realized and unrealized loss	-	(291)	(71)	(362)
Bequests and contributions	-	-	7,033	7,033
Net assets released from restriction	119	(119)	-	-
Endowment net assets, end of year	<u>\$ 119</u>	<u>\$ -</u>	<u>\$ 19,797</u>	<u>\$ 19,916</u>

NOTE 12 - NET ASSETS

At June 30, 2016, total temporarily restricted net assets of approximately \$ 14,990 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. For the year ended June 30, 2016, \$5,564 was released from restriction by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

At June 30, 2016, permanently restricted net assets of \$19,797 are held in endowment and when investment income is earned on these funds, it is made available for programs and services as noted herein.

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 consolidated financial position.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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NOTE 14 - FUNCTIONAL EXPENSES

The functional expenses for June 30, 2016 and 2015 are as follows:

	Library Services	Educational Programs and Services	Braille Publishing, net of revenue	Marketing and Communications	Administration and General Operations	Philanthropy (Fund-Raising)	Total Current Operating Expenditures 2016	Total Current Operating Expenditures 2015
Salaries	\$ 1,371	\$ 6,834	\$ 476	\$ 371	\$ 1,282	\$ 1,739	\$ 12,073	\$ 12,001
Employment benefits	450	2,470	175	129	409	592	4,225	4,332
Community relations	20	85	-	171	-	12	288	391
Contract labor, recruitment and training	42	185	31	-	12	2	272	498
Direct mail/Consulting	-	-	-	-	-	1,024	1,024	1,093
Dues, subscriptions and meetings	9	45	1	1	88	29	173	179
Instructional programs, services and supplies	69	296	-	-	-	-	365	428
Materials and supplies	46	82	6	3	58	19	214	215
Plant and equipment maintenance	593	744	71	37	136	166	1,747	1,665
Professional services	-	14	-	-	471	-	485	251
Publications	23	-	75	148	-	56	302	352
Travel and transportation	7	387	1	2	10	12	419	456
Utilities, taxes and insurance	383	1,248	90	76	65	32	1,894	2,145
Less: Braille publishing income	-	-	-	-	-	-	-	(1)
Total before depreciation expenses	<u>3,013</u>	<u>12,390</u>	<u>926</u>	<u>938</u>	<u>2,531</u>	<u>3,683</u>	<u>23,481</u>	<u>24,005</u>
Depreciation expense	<u>621</u>	<u>802</u>	<u>8</u>	<u>20</u>	<u>54</u>	<u>34</u>	<u>1,539</u>	<u>1,500</u>
Total functional expenses	<u>\$ 3,634</u>	<u>\$ 13,192</u>	<u>\$ 934</u>	<u>\$ 958</u>	<u>\$ 2,585</u>	<u>\$ 3,717</u>	<u>\$ 25,020</u>	<u>\$ 25,505</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2016
(In Thousands)

NOTE 15 - SUBSEQUENT EVENTS

The Institute evaluated its June 30, 2016 consolidated financial statements for subsequent events through September 2, 2016 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.