

Book Industry Charitable Foundation
(formerly Borders Group Foundation)

Financial Report
December 31, 2011

Book Industry Charitable Foundation

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Independent Auditor's Report

To the Board of Directors
Book Industry Charitable Foundation

We have audited the accompanying balance sheet of Book Industry Charitable Foundation (formerly Borders Group Foundation) (the "Foundation") as of December 31, 2011 and 2010 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Book Industry Charitable Foundation (formerly Borders Group Foundation) and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 16, 2012

Book Industry Charitable Foundation

Balance Sheet

	December 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 262,123	\$ 966,607
Accounts receivable	2,322	-
Investments (Notes 2 and 9)	1,887,631	1,967,911
Contributions receivable - Net (Note 3)	-	322,502
Prepaid expenses and other assets:		
Prepaid expenses	4,278	-
Other receivables	-	1,495
	<u>2,156,354</u>	<u>3,258,515</u>
Noncurrent Assets		
Investments - Net of current portion (Notes 2 and 9)	1,982,973	1,473,947
Security deposits	1,200	-
	<u>1,984,173</u>	<u>1,473,947</u>
Total assets	<u>\$ 4,140,527</u>	<u>\$ 4,732,462</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 3,200	\$ 8,156
Sales tax payable	874	2,201
	<u>4,074</u>	<u>10,357</u>
Total liabilities	4,074	10,357
Net Assets		
Unrestricted	3,249,630	3,425,275
Temporarily restricted (Note 4)	886,823	1,296,830
	<u>4,136,453</u>	<u>4,722,105</u>
Total net assets	4,136,453	4,722,105
Total liabilities and net assets	<u>\$ 4,140,527</u>	<u>\$ 4,732,462</u>

Book Industry Charitable Foundation

Statement of Activities and Changes in Net Assets

	Year Ended					
	December 31, 2011			December 31, 2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Gains, and Other Support						
Contributions - Employees	\$ -	\$ -	\$ -	\$ 7,671	\$ 285,000	\$ 292,671
Contributions - Other	2,864	-	2,864	1,651	-	1,651
In-kind contributions	-	-	-	3,544	-	3,544
Contributed services (Note 6)	37,480	-	37,480	49,574	-	49,574
Investment income	53,098	-	53,098	70,818	-	70,818
Unrealized loss on investments	(2,703)	-	(2,703)	-	-	-
Special events - Net (Note 8)	30,773	-	30,773	174,922	-	174,922
Miscellaneous income	10,847	-	10,847	1,264	-	1,264
Net assets released from restrictions	410,007	(410,007)	-	611,167	(611,167)	-
Total revenue, gains, and other support	542,366	(410,007)	132,359	920,611	(326,167)	594,444
Expenses						
Program services:						
Financial assistance	171,805	-	171,805	224,903	-	224,903
Disaster relief assistance	-	-	-	1,100	-	1,100
Scholarship program	137,967	-	137,967	168,900	-	168,900
Memorial contributions for employees	3,000	-	3,000	7,500	-	7,500
Bereavement outreach	18,969	-	18,969	39,756	-	39,756
Contributed services (Note 6)	29,234	-	29,234	38,668	-	38,668
Resources and materials	1,808	-	1,808	2,038	-	2,038
Other assistance to employees	1,588	-	1,588	3,223	-	3,223
Program staffing	141,149	-	141,149	138,341	-	138,341
Other program expenses	4,495	-	4,495	-	-	-
Support services:						
Management and general (Note 7)	185,957	-	185,957	62,214	-	62,214
Fundraising	22,039	-	22,039	25,599	-	25,599
Total expenses	718,011	-	718,011	712,242	-	712,242
(Decrease) Increase in Net Assets	(175,645)	(410,007)	(585,652)	208,369	(326,167)	(117,798)
Net Assets - Beginning of year	3,425,275	1,296,830	4,722,105	3,216,906	1,622,997	4,839,903
Net Assets - End of year	\$ 3,249,630	\$ 886,823	\$ 4,136,453	\$ 3,425,275	\$ 1,296,830	\$ 4,722,105

Book Industry Charitable Foundation

Statement of Cash Flows

	Year Ended	
	December 31, 2011	December 31, 2010
Cash Flows from Operating Activities		
Decrease in net assets	\$ (585,652)	\$ (117,798)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Bad debt expense	128,398	2,202
Realized and unrealized loss on investments	2,703	-
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(2,322)	-
Contributions receivable	194,104	268,689
Prepaid expenses	(4,278)	305
Other receivables	1,495	-
Security deposit	(1,200)	-
Accounts payable	(4,956)	(18,305)
Sales tax payable	(1,327)	(98)
Net cash (used in) provided by operating activities	(273,035)	134,995
Cash Flows from Investing Activities		
Purchases of investments	(2,507,029)	(3,003,979)
Proceeds from sales and maturities of investments	2,075,580	3,272,156
Net cash (used in) provided by investing activities	(431,449)	268,177
Net (Decrease) Increase in Cash and Cash Equivalents	(704,484)	403,172
Cash and Cash Equivalents - Beginning of year	966,607	563,435
Cash and Cash Equivalents - End of year	\$ 262,123	\$ 966,607

Book Industry Charitable Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 1 - Nature of Business and Significant Accounting Policies

Nature of the Organization - Book Industry Charitable Foundation (the "Foundation"), formerly known as Borders Group Foundation, is a nonprofit organization created for the purpose of coordinating programs and services to assist with the charitable needs of the employees of Borders Group, Inc. (the "Company"). The Foundation achieves its objectives through three basic programs: (1) the Employee Assistance Program, (2) the Scholarship Program, and (3) Community Support. In July 2011, Borders Group Inc. announced that their Chapter 11 reorganization was not successful and that Borders Group Inc. would move to Chapter 7 liquidation. As of December 31, 2011, Borders Group Inc. liquidated and the BGI Creditors Liquidator Trust was set up to manage the detail of the liquidation process. In October 2011, the Foundation expanded its mission to include the book industry. In addition, the Foundation changed its name to Book Industry Charitable Foundation.

The Employee Assistance Program, which includes financial and bereavement assistance, was established in February 1996 to provide short-term financial assistance to individuals who have demonstrated financial need due to severe hardship and/or emergency circumstances. In addition to immediate financial assistance, the Foundation also makes available other tools to help affected employees deal with ongoing financial challenges.

The Scholarship Program was established in January 2002 to assist employees with the costs of higher education. The Scholarship Program is managed by an independent panel of judges who select recipients based on academic performance, leadership and participation in community and/or school activities, work experience, statement of career goals, and unusual personal circumstance.

The Foundation also provides general support to charitable organizations who are meeting the immediate needs of communities affected by widespread disasters such as hurricanes or floods.

Cash Equivalents - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents, except for 90-day certificates of deposit and certain cash equivalents which are considered part of the investment portfolio.

Investments - Investments include mutual funds which are measured at fair market value as described in Note 9. In addition, investments include cash equivalents and certificates of deposit that are managed as part of the investment portfolio.

Book Industry Charitable Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Contributions - Contributions from Company employees are recognized as temporarily restricted revenue when pledged. These contributions are restricted for use in the Employee Assistance Program for employees that pledged on or before December 31, 2006. Pledges made by employees subsequent to December 31, 2006 are not purpose restricted. The contributions receivable balance includes amounts to be contributed by Company employees through payroll deductions; such amounts are expected to be collected within one year. An estimate of uncollectible contributions is recorded as a reduction to contributions receivable. The allowance for uncollectible contributions totaled \$15,000 as of December 31, 2010. There were no contributions receivable outstanding as of December 31, 2011.

Classification of Net Assets - Net assets of the Foundation are classified as unrestricted, temporarily restricted, or permanently restricted, depending on the presence and characteristics of donor-imposed restrictions limiting the Foundation's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. The Foundation had no permanently restricted net assets as of December 31, 2011 and 2010.

Federal Tax Status - The Foundation has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Management believes that the Foundation has adequate funding from nonprivate sources to be exempt from private foundation excise taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2008.

Book Industry Charitable Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including February 16, 2012, which is the date the financial statements were available to be issued.

Concentration - Nearly all revenue and support for the years ended December 31, 2011 and 2010 were received from the Company, its employees, and its vendors. Due to the Company liquidating as of December 31, 2011, the Foundation will not have continued access to contributed services and other support from the Company, its vendors, and employees.

Note 2 - Investments

Investments consisted of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Cash equivalents	\$ 19,750	\$ -
Mutual funds	389,182	-
Certificates of deposit	3,461,672	3,441,858
Total	<u>\$ 3,870,604</u>	<u>\$ 3,441,858</u>

Note 3 - Contributions Receivable

Net contributions receivable at December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Gross contributions receivable	\$ -	\$ 337,502
Less allowance for uncollectibles	-	(15,000)
Net contributions receivable	<u>\$ -</u>	<u>\$ 322,502</u>

Book Industry Charitable Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 4 - Net Assets

Temporarily restricted net assets are restricted as follows at December 31:

	2011	2010
Purpose restricted - Employee financial assistance	\$ 886,823	\$ 1,111,603
Time restricted - Pledges	-	185,227
Total	<u>\$ 886,823</u>	<u>\$ 1,296,830</u>

Note 5 - Leases

Beginning in November 2011, the Foundation leases office space under an operating lease agreement that expires October 31, 2014, at which time the Foundation will have an option to renew the lease for an additional three years. The lease requires the Foundation to pay a base rent of \$972 per month plus an allocable share of common area maintenance and utilities of \$252 per month. Total expense under this agreement for the year ended December 31, 2011 was \$2,453.

Future payments due under this operating lease are as follows for the years ending December 31:

2012	\$ 14,721
2013	14,721
2014	<u>12,267</u>
Total	<u>\$ 41,709</u>

Note 6 - Contributed Services

Certain operating services were provided by the Company at no cost to the Foundation. These amounts are included in revenue and expenses as contributed services. These services have been allocated to program and support services. The fair values of these services during 2011 are as follows:

	Program	Management and General	Fundraising	Total
Office rent	\$ 23,400	\$ 3,000	\$ 3,600	\$ 30,000
Equipment	975	125	150	1,250
Miscellaneous	4,859	623	748	6,230
Total	<u>\$ 29,234</u>	<u>\$ 3,748</u>	<u>\$ 4,498</u>	<u>\$ 37,480</u>

Book Industry Charitable Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 6 - Contributed Services (Continued)

The fair values of these services during 2010 are as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Office rent	\$ 28,080	\$ 3,600	\$ 4,320	\$ 36,000
Equipment	1,170	150	180	1,500
Miscellaneous	9,418	1,207	1,449	12,074
Total	<u>\$ 38,668</u>	<u>\$ 4,957</u>	<u>\$ 5,949</u>	<u>\$ 49,574</u>

Note 7 - Management and General

Management and general expenses during 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Accounting fees	\$ 28,559	\$ 27,449
Administrative staffing	12,535	12,384
Contributed services	3,748	4,957
Bad debts	128,398	2,202
Other expenses	12,717	15,222
Total	<u>\$ 185,957</u>	<u>\$ 62,214</u>

Bad debt expense for the year ended December 31, 2011 resulted from the liquidation of the Company and the resulting inability for the previously planned contributions to be collected through payroll deductions from Company employees.

Note 8 - Special Events

Revenue and expenses from special event activities are summarized below for the years ended December 31, 2011 and 2010:

	<u>Revenue</u>	<u>Expenses</u>	<u>Net Revenue</u>
2011			
Miscellaneous events	\$ 39,346	\$ (8,573)	\$ 30,773
Golf outing	-	-	-
Total	<u>\$ 39,346</u>	<u>\$ (8,573)</u>	<u>\$ 30,773</u>
2010			
Miscellaneous events	\$ 68,862	\$ (11,243)	\$ 57,619
Golf outing	152,605	(35,302)	117,303
Total	<u>\$ 221,467</u>	<u>\$ (46,545)</u>	<u>\$ 174,922</u>

Book Industry Charitable Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 9 - Fair Value

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Foundation measures its investments in mutual funds at fair value on a recurring basis. The fair value of mutual funds is based primarily on Level 1 inputs as described above.