



RECORDING FOR THE BLIND & DYSLEXIC, INC.

Financial Statements and Supplementary Information

June 30, 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 402
301 Carnegie Center
Princeton, NJ 08540-6227

Independent Auditors' Report

The Board of Directors
Recording for the Blind & Dyslexic, Inc.:

We have audited the accompanying statement of financial position of Recording for the Blind & Dyslexic, Inc. (the Organization) as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated January 20, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Recording for the Blind & Dyslexic, Inc.'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 financial statements referred to above present fairly, in all material respects, the financial position of Recording for the Blind & Dyslexic, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

October 19, 2010

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Statement of Financial Position

June 30, 2010

(with comparative financial information as of June 30, 2009)

Assets	2010	2009
Cash and cash equivalents	\$ 2,279,682	2,974,213
Investments (notes 2, 3 and 9)	32,185,588	28,984,658
Beneficial interest in perpetual trust (note 3)	605,000	532,102
Grants and other receivables (note 12)	2,650,960	1,575,587
Contributions receivable, net (note 8)	1,332,543	1,319,884
Prepaid expenses and other assets	940,186	944,041
Property and equipment, net (note 5)	10,275,438	10,566,526
Total assets	\$ <u>50,269,397</u>	<u>46,897,011</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,278,712	4,173,693
Lines of credit and mortgage (note 9)	1,989,001	2,059,810
Total liabilities	<u>6,267,713</u>	<u>6,233,503</u>
Net assets:		
Unrestricted	28,643,072	25,520,679
Temporarily restricted (note 7)	5,489,458	5,364,493
Permanently restricted (notes 4 and 7)	9,869,154	9,778,336
Total net assets	<u>44,001,684</u>	<u>40,663,508</u>
Total liabilities and net assets	\$ <u>50,269,397</u>	<u>46,897,011</u>

See accompanying notes to financial statements.

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Statement of Activities

Year ended June 30, 2010

(with summarized financial information for the year ended June 30, 2009)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals	
				2010	2009
Operating:					
Revenues and other support:					
Contributions and private grants	\$ 5,779,775	1,063,008	3,100	6,845,883	7,238,632
Legacies and trusts	1,640,045	96,112	14,284	1,750,441	2,635,915
Government grants and contracts	15,380,771	(293,788)	—	15,086,983	4,226,937
Donated services (note 6)	19,650,882	3,400	—	19,654,282	24,295,818
Special events	351,531	480	—	352,011	646,651
Interest and dividends	404,450	211,933	—	616,383	600,800
Fees and product sales	5,976,640	—	—	5,976,640	8,271,690
Endowment spending (note 4)	6,000	—	—	6,000	170,968
Other revenues	2,610,235	—	—	2,610,235	157,095
Total revenues	51,800,329	1,081,145	17,384	52,898,858	48,244,506
Net assets released from restrictions	1,835,758	(1,835,758)	—	—	—
Total revenues and other support	53,636,087	(754,613)	17,384	52,898,858	48,244,506
Expenses (note 6):					
Program services:					
Recording studio	24,334,016	—	—	24,334,016	29,714,546
Production	4,304,509	—	—	4,304,509	5,365,817
Services coordination	8,992,561	—	—	8,992,561	13,341,485
Total program services	37,631,086	—	—	37,631,086	48,421,848
Supporting services:					
Administration	7,849,552	—	—	7,849,552	9,235,964
Fundraising	6,369,207	—	—	6,369,207	5,625,951
Public affairs	749,312	—	—	749,312	1,994,774
Total supporting services	14,968,071	—	—	14,968,071	16,856,689
Total expenses	52,599,157	—	—	52,599,157	65,278,537
Excess (deficiency) of revenues and other support over expenses before other changes	1,036,930	(754,613)	17,384	299,701	(17,034,031)
Nonoperating:					
Loss on disposal and sale of property and equipment	(5,878)	—	—	(5,878)	(2,056)
Appropriation of endowment for expenditure (note 4)	—	(6,000)	—	(6,000)	(170,968)
Net unrealized and realized gains (losses) on investments	2,091,341	885,578	73,434	3,050,353	(7,063,895)
Change in net assets	3,122,393	124,965	90,818	3,338,176	(24,270,950)
Net assets as of beginning of year	25,520,679	5,364,493	9,778,336	40,663,508	64,934,458
Net assets as of end of year	\$ 28,643,072	5,489,458	9,869,154	44,001,684	40,663,508

See accompanying notes to financial statements.

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Statement of Cash Flows

Year ended June 30, 2010

(with comparative financial information for the year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,338,176	(24,270,950)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	1,313,435	1,395,335
Loss on disposal and sale of property and equipment	5,879	2,056
Net unrealized and realized (gains) losses on investments	(3,020,353)	6,908,877
Revenues permanently restricted for long-term investment	(17,384)	(189,493)
(Increase) decrease in beneficial interest in perpetual trust	(72,898)	156,044
(Increase) decrease in grants and other receivables	(1,075,373)	12,426,243
(Increase) decrease in contributions receivable	(12,659)	1,186,079
Decrease in prepaid expenses and other assets	3,855	464,206
Increase (decrease) in accounts payable and accrued expenses	105,019	(331,147)
Net cash provided by (used in) operating activities	<u>567,697</u>	<u>(2,252,750)</u>
Cash flows from investing activities:		
Purchases of investments	(2,676,627)	(870,917)
Proceeds from sales of investments	2,496,050	6,206,315
Purchases of property and equipment	(1,028,401)	(463,423)
Proceeds from sales of property and equipment	175	300
Net cash (used in) provided by investing activities	<u>(1,208,803)</u>	<u>4,872,275</u>
Cash flows provided by financing activities:		
Proceeds from borrowing	2,975,000	230,000
Repayment of borrowing	(3,045,809)	(3,457,489)
Revenues permanently restricted for long-term investment	17,384	189,493
Net cash used in financing activities	<u>(53,425)</u>	<u>(3,037,996)</u>
Net decrease in cash and cash equivalents	(694,531)	(418,471)
Cash and cash equivalents as of beginning of year	<u>2,974,213</u>	<u>3,392,684</u>
Cash and cash equivalents as of end of year	\$ <u><u>2,279,682</u></u>	\$ <u><u>2,974,213</u></u>
Supplemental disclosure of cash flow information:		
Donated services	\$ 19,654,282	24,295,818

See accompanying notes to financial statements.

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(with comparative financial information for June 30, 2009)

(1) Organization and Summary of Significant Accounting Policies

Organization

Recording for the Blind & Dyslexic, Inc. (the Organization) is a national, not-for-profit volunteer organization that serves people who cannot effectively read standard print because of a visual impairment, dyslexia, or other physical disability. The Organization is dedicated to create opportunities for individual success by providing, and promoting the effective use of, accessible educational materials. The Organization's vision is for all people to have access to the printed word.

Recording for the Blind & Dyslexic, Inc. is an organization described under Section 501(c)(3) of the Internal Revenue Code and therefore is exempt from Federal income taxes under Section 501(a) of the Code. The Organization believes it has taken no significant uncertain tax positions.

The accompanying financial statements include the national headquarters of the Organization and all its units throughout the United States.

Summary of Significant Accounting Policies

(a) *Basis of Presentation*

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for unrestricted or specific purposes.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met by actions of the Organization or by the passage of time.
- Unrestricted net assets – net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets are reported as net assets released from restrictions.

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(with comparative financial information for June 30, 2009)

(b) Government Grants

The Organization has been the recipient of federal, state, and local grants. These grants may specify levels of service including the issuance of annual institutional memberships, provide specialized audio equipment and local training as well as provide funds to support recording and distributing audio textbooks. Those grants (now considered exchange transactions) that have specific service requirements and a future period of performance are recorded as temporarily restricted grant revenue for the full grant amount upon formal award of the grant. Expiration of temporary restrictions is reported as net assets released from restrictions. Temporarily restricted government grant revenue for years ending June 30, 2010 and 2009 was \$0 and \$769,570, respectively.

(c) Fees and Product Sales

Fees and product sales revenue, which arises primarily from the sale of membership fees and product sales, is generally recognized upon delivery of the service or product to the customer.

(d) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Unconditional promises to give (pledges) that are expected to be collected in excess of one year are recorded net of discount (at a risk-adjusted rate) to reflect the present value of future cash flows. Amortization of the discount is recorded as additional contribution revenue, in accordance with donor restriction, if any, on the contribution.

(e) Release of Restrictions on Net Assets Held for Acquisition of Property and Equipment

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time such acquired long-lived assets are placed in service.

(f) Contributions with Restrictions Met in the Same Year

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

(g) Prior Year Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

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(with comparative financial information for June 30, 2009)

(h) *Functional Allocation of Expenses*

The costs of providing the program and supporting services of the Organization have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the program and supporting services benefited.

(i) *Cash Equivalents*

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash or are so near their maturity (original maturities of three months or less) that they present insignificant risk of changes in value because of changes in interest rates, except those amounts that are held for long-term investment.

(j) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 during the reporting period. Actual results could differ from those estimates.

(k) *Nonoperating Activities*

Nonoperating activities include loss on sale and disposal of property and equipment, appropriation of endowment for expenditure, net unrealized and realized gains (losses) on investments and other nonrecurring activities.

(l) *Concentration of Risk*

The Organization maintains a significant investment portfolio, which includes money market funds, mutual funds, U.S. Government securities, corporate stocks and bonds, international funds and alternative investments. Alternative investments include an interest in a fund of funds. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence on key individuals and nondisclosure of portfolio composition. The Organization reviews the performance and risks associated with these investments. In addition, the Organization utilizes the services of an investment consultant who continually monitors the individual investment fund performance, any changes in management at the investment fund or any other significant matters affecting the fund and advises the Organization of any such changes.

As the Organization is dependent on investment return and grants from the U.S. Department of Education to fund a significant portion of the operations of the Organization, a significant decrease in investment return or government funding may have a material impact on the financial position, changes in net assets, and cash flows of the Organization.

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(with comparative financial information for June 30, 2009)

(m) Reclassifications

Certain reclassifications have been made to the prior year balances to conform with the current year presentation.

(n) New Accounting Pronouncement

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) No. 105-10, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (ASC 105-10)*. The codification brings together and organizes all GAAP previously in Level A through D of the GAAP hierarchy and designates GAAP into two levels: authoritative and nonauthoritative. FASB accounting standards issuances are now issued as amendments to the ASC and referred to as Accounting Standards Updates (ASU). As of June 30, 2010, the Organization adopted ASC 105-10, which did not have a material impact on the Organization's financial statements.

(2) Investments

Investments are stated at fair value. The fair value of all money market funds, mutual funds, U.S. Government securities, corporate stocks and bonds, and international funds with a readily determinable fair value are based on quotations obtained from national securities exchanges. The estimated fair value of the alternative investment is based on valuations provided by the external investment managers, which is reviewed by management for reasonableness. The Organization's interests in alternative investments are generally reported at the net asset value (NAV) reported by the fund managers. NAV is used as a practical expedient to estimate the fair value of the Organization's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2010 and 2009, the Organization had no specific plans or intentions to sell investments at amounts different than NAV. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Investments at fair value as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Money market funds	\$ 928,808	2,248,348
Long-term certificates of deposit	—	400,000
Mutual funds	14,903,403	9,185,155
U.S. government securities	182,671	182,349
U.S. corporate stocks	8,730,324	11,661,221
International stocks	230,448	137,402
International funds	4,371,168	4,043,553
Alternative investments	2,838,766	1,126,630
	<u>\$ 32,185,588</u>	<u>28,984,658</u>

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(with comparative financial information for June 30, 2009)

(3) Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quotes prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The level in the fair value hierarchy with which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Classification in Level 2 or 3 is based on the Organization's ability to redeem its interest at or near the date of the statement of financial position, and if the interest can be redeemed in the near term the investment is classified as Level 2.

The Organization's assets at June 30, 2010 and 2009 that are reported at fair value on an annual basis are summarized in the following table by their fair value hierarchy:

	2010				Redemption or Liquidation
	Fair value	Level 1	Level 2	Level 3	
Money market funds	\$ 928,808	928,808	—	—	Daily
Mutual funds	14,903,403	14,903,403	—	—	Daily
U.S. government securities	182,671	182,671	—	—	Daily
U.S. corporate stocks	8,730,324	8,730,324	—	—	Daily
International stocks	230,448	230,448	—	—	Daily
International funds	4,371,168	—	4,371,168	—	Daily
Alternative investment	2,838,766	—	2,838,766	—	Quarterly, 90 days
	<u>32,185,588</u>	<u>24,975,654</u>	<u>7,209,934</u>	—	
Beneficial interest in perpetual trust	605,000	—	—	605,000	Not applicable
	<u>\$ 32,790,588</u>	<u>24,975,654</u>	<u>7,209,934</u>	<u>605,000</u>	

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

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(with comparative financial information for June 30, 2009)

	2009				Redemption or Liquidation
	Fair value	Level 1	Level 2	Level 3	
Money market funds	\$ 2,248,348	2,248,348	—	—	Daily
Long-term certificates of deposit	400,000	400,000	—	—	Daily
Mutual funds	9,185,155	9,185,155	—	—	Daily
U.S. government securities	182,349	182,349	—	—	Daily
U.S. corporate stocks	11,661,221	11,661,221	—	—	Daily
International stocks	137,402	137,402	—	—	Daily
International funds	4,043,553	—	4,043,553	—	Daily
Alternative investment	1,126,630	—	1,126,630	—	Quarterly, 90 days
	<u>28,984,658</u>	<u>23,814,475</u>	<u>5,170,183</u>	—	
Beneficial interest in perpetual trust	532,102	—	—	532,102	Not applicable
	<u>\$ 29,516,760</u>	<u>23,814,475</u>	<u>5,170,183</u>	<u>532,102</u>	

The following table presents the Organization's activity for all Level 3 assets measured at fair value on an annual basis for the period July 1, 2008 to June 30, 2010:

	Level 3
Financial assets:	
Beginning balance July 1, 2008	\$ 688,146
Net realized and unrealized losses	<u>(156,044)</u>
Ending balance June 30, 2009	532,102
Net realized and unrealized gains	<u>72,898</u>
Ending balance June 30, 2010	<u>\$ 605,000</u>

(4) Endowment

The Organization's endowment consists of approximately 40 individual donor-restricted funds established for a variety of purposes.

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(with comparative financial information for June 30, 2009)

Effective July 1, 2008, the Organization adopted the provisions of ASC No. 958-205 (formerly referred to as FASB Staff Position No. FAS 117 – 1). ASC No. 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2007 (UPMIFA). ASC No. 958-205 also improves disclosures about an organization’s donor-restricted and board-designated endowment funds.

(a) Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the State of New Jersey Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Organization 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 by the Organization in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Organization and the donor-restriction;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Organization; and
7. The investment policy of the Organization.

The following represents the net asset classes of the Organization’s endowment funds as of June 30, 2010 and 2009:

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (127,570)	3,088,492	9,262,592	12,223,514

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(with comparative financial information for June 30, 2009)

	2009			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds	\$ (268,449)	2,004,365	9,245,208	10,981,124

Changes in donor-restricted endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, at June 30, 2008	\$ 3,896,164	131,928	9,055,715	13,083,807
Net asset reclassification in accordance with FSP 117-1	(3,912,951)	3,912,951	—	—
Investment return:				
Investment income	—	164,103	—	164,103
Net depreciation (realized and unrealized)	(251,662)	(2,033,649)	—	(2,285,311)
Total investment return	(251,662)	(1,869,546)	—	(2,121,208)
Contributions	—	—	189,493	189,493
Appropriation of endowment net assets for expenditure	—	(170,968)	—	(170,968)
Endowment net assets, at June 30, 2009	(268,449)	2,004,365	9,245,208	10,981,124
Investment return:				
Investment income	—	211,933	—	211,933
Net appreciation (realized and unrealized)	140,879	878,194	—	1,019,073
Total investment return	140,879	1,090,127	—	1,231,006
Contributions	—	—	17,384	17,384
Appropriation of endowment net assets for expenditure	—	(6,000)	—	(6,000)
Endowment net assets, at June 30, 2010	\$ (127,570)	3,088,492	9,262,592	12,223,514

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(with comparative financial information for June 30, 2009)

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$127,570 and \$268,449 as of June 30, 2010 and 2009, respectively. These deficiencies resulted primarily from unfavorable market fluctuations.

(c) Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to protect the original value of the gift. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a mix of relevant benchmarks, while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

(d) Spending Policy

The Organization has a policy of appropriating for distribution each year 5% of the endowment's rolling three year average fair value. In establishing this policy, the Organization considered the long-term expected return on its endowment, mentioned above. During fiscal 2010, the Organization temporarily suspended this spending policy.

(5) Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method based on the estimated useful lives of the assets and consist of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>	<u>Depreciable life</u>
Land and improvements	\$ 2,197,163	2,197,163	—
Buildings and improvements	9,762,490	9,818,993	5 – 40 years
Recording and office equipment	15,424,086	18,028,414	3 – 10 years
Vehicles	34,592	19,258	3 years
Construction in progress	201,978	—	—
	<u>27,620,309</u>	<u>30,063,828</u>	
Less accumulated depreciation	<u>(17,344,871)</u>	<u>(19,497,302)</u>	
Net property and equipment	\$ <u>10,275,438</u>	<u>10,566,526</u>	

(6) Donated Services

The Organization is dependent on volunteer time to record new books. To properly recognize the significant role of volunteers and contributions of services in the furtherance of the Organization's mission, management of the Organization adopted procedures to measure the fair value of certain donated services

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(with comparative financial information for June 30, 2009)

related to the recording of books provided by certain professionals. Donated services for the Organization consist primarily of recording studio time spent by volunteers, which has been valued at \$70 and \$69 per hour for the years ended June 30, 2010 and 2009, respectively. The rate is based upon periodic surveys of rates charged by professional readers for comparable work. Donated services have been recognized as revenue and expense in the statement of activities and have been allocated in accordance with the functions benefited and include volunteer services of \$18,867,776 and \$23,595,101, donated space of \$350,580 and \$367,313, donated books of \$334,908 and \$333,404, and in-kind donations of \$101,018 and \$0 for the years ended June 30, 2010 and 2009, respectively.

(7) Restrictions and Limitations on Net Asset Balances

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of gifts and other unexpended revenues and gains available for the following as of June 30, 2010 and 2009:

	2010	2009
Program expenditures	\$ 4,156,914	3,844,267
Life income agreement	—	19,832
Time restricted grants and contributions	1,332,544	1,500,394
	\$ 5,489,458	5,364,493

(b) Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment gifts from donors with donor specified restrictions that the principal be invested in perpetuity and the income be used primarily for unrestricted purposes and library services.

(8) Contributions Receivable

Contributions receivable, which consist of unconditional promises to give, are expected to be received as follows:

	2010	2009
Less than one year	\$ 813,146	1,019,907
One to five years	857,369	737,679
More than five years	25,926	28,694
	1,696,441	1,786,280
Allowance for uncollectible promises	(323,461)	(386,348)
Present value discount (3.45% to 5%)	(40,437)	(80,048)
Contributions receivable, net	\$ 1,332,543	1,319,884

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(with comparative financial information for June 30, 2009)

(9) Lines of Credit and Mortgage

The Organization has lines of credit and a mortgage totaling \$1,989,001 and \$2,059,810 as of June 30, 2010 and 2009, respectively.

There were no borrowings under the line of credit at June 30, 2010 and 2009. Interest rates range from 3.09% to 2.25% for the years ended June 30, 2010 and 2009. Interest expense for the line of credit for the years ended June 30, 2010 and 2009 was \$6,910 and \$71,207, respectively. The Organization has pledged certain investments as collateral.

As of June 30, 2010 and 2009, the Organization has a mortgage in the amount of \$1,989,001 and \$2,059,810, respectively, for an office building with a bank qualified, tax exempt, five-year adjustable interest rate, which is currently 4.75%. Interest expense for the note payable for the years ended June 30, 2010 and 2009 was \$96,657 and \$101,081, respectively. The mortgage matures on December 1, 2027.

(10) Retirement Plan

The Organization has a contributory defined contribution retirement plan covering substantially all employees who meet certain length-of-service and age requirements. Participants are fully vested after two years of service and their contributions are nonforfeitable. Total retirement plan expense was approximately \$1,122,000 and \$1,294,500 in 2010 and 2009, respectively.

(11) Commitments

The Organization is obligated under several operating leases for rentals of office space and equipment that expire at various dates. The approximate future minimum annual rental payments under noncancelable operating leases are as follows:

	<u>Amount</u>
Year ending June 30:	
2011	\$ 1,006,599
2012	999,534
2013	879,982
2014	513,258
2015	373,141

The estimated sum of rental payments to be made over the life of all operating leases is being allocated on a straight-line basis over the entire lease period and is recognized as periodic rent expense. Total rent expense for all operating leases approximated \$1,430,000 and \$1,472,000 for the years ended June 30, 2010 and 2009, respectively.

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(with comparative financial information for June 30, 2009)

(12) Grants and Other Receivables

Grants and other receivables consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Government grants	\$ 2,521,775	1,194,365
Customer and other receivables	129,185	381,222
	<u>\$ 2,650,960</u>	<u>1,575,587</u>

Grants and other receivables are expected to be received within one year.

(13) Subsequent Events

The Organization evaluated subsequent events for potential recognition or disclosure through October 19, 2010, the date on which the financial statements were issued. The Organization has determined there are no subsequent events to disclose.

RECORDING FOR THE BLIND & DYSLEXIC, INC.

Schedule of Functional Expenses

Year ended June 30, 2010

(with summarized financial information for the year ended June 30, 2009)

	Program services			Supporting services			Total expenses	
	Recording studio	Production	Services coordination	Administration	Fundraising	Public affairs	2010	2009
	Salaries	\$ 2,167,537	1,310,003	3,874,471	4,487,869	3,882,423	322,437	16,044,740
Employee benefits and payroll taxes	680,218	498,047	1,188,164	1,125,382	991,353	53,696	4,536,860	5,418,180
Total employee compensation	2,847,755	1,808,050	5,062,635	5,613,251	4,873,776	376,133	20,581,600	25,315,168
Volunteer services	18,867,776	—	—	—	—	—	18,867,776	23,595,101
Professional fees	1,221	3,378	566,285	636,316	106,225	254,133	1,567,558	2,697,506
Repairs and maintenance	107,329	338,566	367	831	1,754	—	448,847	423,797
Printed materials and supplies	90,967	8,605	252,446	56,578	34,219	1,362	444,177	1,526,366
Telephone	143,390	240,946	107,936	24,436	22,107	9,890	548,705	707,665
Postage and packaging	18,866	260,372	10,677	—	660,563	119	950,597	966,705
Tapes and production	2,441	258,717	—	—	—	—	261,158	359,108
Data processing	19,150	19,791	12,689	768,089	109,030	—	928,749	726,786
Interest expense	97,657	—	—	6,910	20	—	104,587	173,753
Books and publications	950	271	450,748	17,410	10,417	319	480,115	566,197
Travel and conferences	7,941	50,360	369,966	160,740	205,659	18,739	813,405	938,660
Special events	8,950	—	—	—	205,402	—	214,352	267,983
Awards and grants	—	—	60,000	—	—	—	60,000	59,092
Rent and utilities	1,807,729	632,909	—	—	—	75,863	2,516,501	2,573,682
Investment expense	—	—	—	95,246	—	—	95,246	214,503
Volunteer expense	33,569	—	—	—	1,296	—	34,865	104,858
Staff training and recruitment	128	—	791	221,434	38,102	—	260,455	223,476
Cost of products sold	—	—	1,969,841	—	—	—	1,969,841	2,550,148
Other expenses	81,313	6,519	2,090	30,544	15,658	1,064	137,188	(107,352)
Expenses before depreciation	24,137,132	3,628,484	8,866,471	7,631,785	6,284,228	737,622	51,285,722	63,883,202
Depreciation expense	196,884	676,025	126,090	217,767	84,979	11,690	1,313,435	1,395,335
Total expenses	\$ 24,334,016	4,304,509	8,992,561	7,849,552	6,369,207	749,312	52,599,157	65,278,537

See accompanying independent auditors' report.