LEARNING ALLY, INC.
(A Not-For-Profit Organization)

FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Learning Ally, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Learning Ally, Inc. the ("Organization"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for each of the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the 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 organization'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 financial statements.

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

EisnerAmper
ACCOUNTANTS & ADVISORS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Learning Ally, Inc.as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

Iselin, New Jersey
October 5, 2016

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statements of Financial Position

	June 30, 2016	June 30, 2015
ASSETS		
Cash and cash equivalents	**$ 1,641,073**	$ 779,368
Grants and other receivables, net	**329,583**	291,771
Contributions receivable, net	**5,103,681**	2,399,706
Investments	**15,948,472**	19,033,650
Prepaid expenses and other assets	**451,152**	483,737
Split-interest agreements and other arrangements	**1,090,163**	1,194,787
Beneficial interest in perpetual trusts	**2,730,765**	2,880,471
Property and equipment, net	**4,258,934**	4,413,048
Total assets	**$ 31,553,823**	$ 31,476,538
LIABILITIES		
Accounts payable and accrued expenses	**$ 1,321,874**	$ 1,231,388
Deferred revenue	**1,979,590**	1,907,698
Obligations under capital lease	**248,646**	-
Total liabilities	**3,550,110**	3,139,086
Commitments		
NET ASSETS		
Unrestricted	**4,154,103**	6,158,721
Temporarily restricted	**11,633,071**	9,812,486
Permanently restricted	**12,216,539**	12,366,245
Total net assets	**28,003,713**	28,337,452
Total liabilities and net assets	**$ 31,553,823**	$ 31,476,538

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and other support:				
Contributions, private grants and legacies	$ 2,425,019	$ 6,057,254	$ -	$ 8,482,273
Government grants and contracts	4,012,047	-	-	4,012,047
Donated services, goods and rent	7,027,843	-	-	7,027,843
Membership fees and services, net	4,743,886	-	-	4,743,886
Special events	101,652	10,000	-	111,652
Interest and dividends, net	202,309	606,960	-	809,269
Other revenue	18,934	-	-	18,934
	18,531,690	6,674,214	-	25,205,904
Net assets released from restrictions	3,879,557	(3,879,557)	-	-
Total operating revenue and other support	22,411,247	2,794,657	-	25,205,904
Operating expenses:				
Program services:				
Production	13,171,483	-	-	13,171,483
Services coordination	5,959,346	-	-	5,959,346
Total program services	19,130,829	-	-	19,130,829
Supporting services:				
Administration	2,969,044	-	-	2,969,044
Fundraising	2,082,528	-	-	2,082,528
Total supporting services	5,051,572	-	-	5,051,572
Total operating expenses	24,182,401	-	-	24,182,401
(Deficiency) excess of operating revenue and other support over operating expenses before nonoperating activities	(1,771,154)	2,794,657	-	1,023,503
Non-operating activities:				
Gain on sale of property and equipment	35,048	-	-	35,048
Net unrealized and realized (losses) on investments and perpetual trusts	(268,512)	(974,109)	(149,706)	(1,392,327)
Change in value of split interest agreements	-	37	-	37
Change in net assets	(2,004,618)	1,820,585	(149,706)	(333,739)
Net assets, beginning of the year	6,158,721	9,812,486	12,366,245	28,337,452
Net assets, end of year	$ 4,154,103	$ 11,633,071	$ 12,216,539	$ 28,003,713

See notes to financial statements

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and other support:				
Contributions, private grants and legacies	$ 2,968,156	$ 2,450,993	$ -	$ 5,419,149
Government grants and contracts	3,509,991	-	-	3,509,991
Donated services, goods and rent	8,977,825	-	-	8,977,825
Membership fees and services, net	4,423,263	-	-	4,423,263
Special events	305,211	18,100	-	323,311
Interest and dividends, net	517,440	942,502	-	1,459,942
Other revenue	1,252,800	-	-	1,252,800
	21,954,686	3,411,595	-	25,366,281
Net assets released from restrictions	3,263,214	(3,263,214)	-	-
Total operating revenue and other support	25,217,900	148,381	-	25,366,281
Operating expenses:				
Program services:				
Production	15,835,272	-	-	15,835,272
Services coordination	7,929,331	-	-	7,929,331
Total program services	23,764,603	-	-	23,764,603
Supporting services:				
Administration	3,309,262	-	-	3,309,262
Fundraising	2,196,412	-	-	2,196,412
Total supporting services	5,505,674	-	-	5,505,674
Total operating expenses	29,270,277	-	-	29,270,277
(Deficiency) excess of operating revenue and other support over operating expenses before nonoperating activities	(4,052,377)	148,381	-	(3,903,996)
Non-operating activities:				
Loss on sale of property and equipment	(63,898)	-	-	(63,898)
Net unrealized and realized (losses) on investments and perpetual trusts	(454,471)	(1,018,099)	(75,973)	(1,548,543)
Change in value of split interest agreements	-	47,357	-	47,357
Change in net assets	(4,570,746)	(822,361)	(75,973)	(5,469,080)
Net assets, beginning of the year	10,729,467	10,634,847	12,442,218	33,806,532
Net assets, end of year	$ 6,158,721	$ 9,812,486	$ 12,366,245	$ 28,337,452

See notes to financial statements

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statements of Cash Flows

	Year Ended June 30, 2016	Year Ended June 30, 2015
Cash flows from operating activities		
Change in net assets	**$ (333,739)**	$ (5,469,080)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	**568,618**	615,027
Change in discount and allowance related to contributions receivable	**3,173**	(36,626)
Net (gain) loss on sale of property and equipment	**(35,048)**	63,898
Net unrealized and realized losses on investments and perpetual trusts	**1,392,327**	1,548,543
Donated securities	**(9,853)**	(20,309)
Proceeds from sale of donated securities	**10,128**	20,167
Change in assets and liabilities:		
Grants and other receivables	**(37,812)**	(8,994)
Contributions receivable	**(2,707,148)**	192,530
Prepaid expenses and other assets	**32,585**	101,831
Split-interest agreements and other arrangements	**104,624**	96,683
Accounts payable and accrued expenses	**90,486**	(326,313)
Deferred revenue	**71,892**	(13,418)
Net cash used in operating activities	**(849,767)**	(3,236,061)
Cash flows from investing activities:		
Purchases of investments	**(707,449)**	(1,378,026)
Proceeds from sales of investments	**2,549,730**	4,694,345
Purchase of property and equipment	**(295,094)**	(216,189)
Proceeds from sale of property and equipment	**213,799**	2,500
Net cash provided by investing activities	**1,760,986**	3,102,630
Cash flows from financing activities:		
Principal payments on capital lease	**(49,514)**	-
Net cash used in financing activities	**(49,514)**	-
Net increase (decrease) in cash and cash equivalents	**861,705**	(133,431)
Cash and cash equivalents, beginning of year	**779,368**	912,799
Cash and cash equivalents, end of year	**$ 1,641,073**	$ 779,368
Supplemental disclosure of cash flow information:		
Interest paid	**$ 11,998**	$ -
Non-Cash activities:		
Donated services, goods and rent	**$ 7,027,843**	$ 8,977,825
Property and equipment purchased under a capital lease	**$ 298,160**	$ -

NOTE A - ORGANIZATION

Founded in 1948, Learning Ally (the "Organization") supports hundreds of thousands of K-12, college and graduate students, veterans and lifelong learners – all of whom read and learn differently due to dyslexia, blindness or visual impairment, and other disabilities. Through its extensive community events and support programs, Learning Ally enables parents, teachers and specialists to help students thrive and succeed. The Organization hosts live and virtual events for families and teachers; and provides instructive webinars led by experts, peer-to-peer sessions led by students, a mentoring program for college students who are blind, and professional development workshops for educators. Learning Ally's collection of 82,000 human-narrated audio textbooks and literature titles can be downloaded by students on their smartphones and tablets, and is the largest of its kind in the world. As a 501(c)(3) nonprofit, Learning Ally is partially funded by grants from federal, state and local education programs, and the generous contributions of individuals, foundations and corporations.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Basis of presentation:

The accompanying 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:

<u>Permanently restricted net assets</u> - 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.

<u>Temporarily restricted net assets</u> - net assets subject to donor-imposed stipulations that will be met either by actions of the Organization, or the passage of time, and earnings derived from donor-restricted endowments not yet appropriated by the Board of Directors.

<u>Unrestricted net assets</u> - 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 temporarily restricted or permanently restricted by explicit donor stipulations or by law. Expiration of temporary restrictions on net assets are reported as net assets released from restrictions on the statements of activities.

[2] Government grants and contracts:

Revenue from federal and state grants is recognized to the extent that qualifying reimbursable expenses have been incurred under the terms of the respective agreements or performance measures as stipulated in the grants have been met. Amounts received in advance are deferred until such time that the underlying obligation is satisfied by Learning Ally.

[3] Membership fees and services:

Service revenue is recorded when the service is provided to the customer. Membership fees are recognized ratably over the contract period. Membership fees and services are recorded net of promotional discounts and hardship waivers totaling $237,287 and $253,557 for the years ended June 30, 2016 and 2015, respectively. Membership fees collected which relate to the following fiscal year are deferred until earned and are recorded as deferred revenue on the statements of financial position.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Contributions, private grants, and legacies:

Contributions, including unconditional promises to give, private grants, and legacies are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend 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 an appropriate discount (using a credit-adjusted rate) to reflect the present value of expected future cash flows. Allowances are recorded for estimated uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Contributions receivable are written-off in the period in which they are deemed uncollectible and expensed in the net asset category where the related receivable resides.

[5] Split-interest agreements and other arrangements:

The Organization recognizes contribution revenue and related asset when an irrevocable split-interest agreement naming it as a trustee or fiscal agent is executed. When an unrelated third party acts as trustee or fiscal agent, the Organization recognizes contribution income when it is notified of the agreement's existence and all relevant information is made known to it. The Organization's split-interest agreements are managed by third-party trustees, in accordance with stipulations of the donors who established them.

a) Beneficial interest in perpetual trusts held by others:

A perpetual trust held by a third party is an arrangement in which the donor establishes and funds a trust that is administered by an outside third party. Under the terms of the trust, the Organization has the right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in the trust. The Organization recognizes its beneficial interest in perpetual trusts at the fair value of the underlying assets. The trusts are recorded as permanently restricted net assets and the changes in value of the trusts have been reported in the statements of activities.

b) Beneficial interest in other charitable trusts:

Beneficial interests in other charitable trusts are arrangements in which the donor establishes and funds a trust that is administered by an outside third party. Under the terms of the trust, the Organization has the right to receive the income earned on the trust assets for a finite period of time and, in certain instances, the Organization is entitled to receive the trust assets upon the termination of the trust. The fair value of the trusts is computed at the present value (discount rates range from 3.12% to 5.77% at June 30, 2016 and 2015, respectively) of the estimated future cash flows to be received from the trusts. The trusts are recorded as temporarily restricted net assets, and the changes in the value of the trusts have been reported in the statements of activities.

c) Oil and gas rights:

The Organization occasionally takes title to and benefits from interests in certain oil and gas rights. These rights are valued based on market activity of similar interests. During the year ended June 30, 2015, the Organization leased certain oil and gas rights for approximately $1,153,000. Leasing proceeds, which were paid upfront and are non-refundable, cover the three-years through May 2018 and are reflected in other revenue on the accompanying 2015 statement of activities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Release of restrictions on net assets held for acquisition of property and equipment:

Contributions of property and equipment without donor-imposed 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, pursuant to donor-imposed restrictions, are reported as revenues of the temporarily restricted net asset class; the restrictions are considered satisfied at the time such acquired long-lived assets are placed in service.

[7] Functional allocation of expenses:

The costs of providing the program and supporting services of the Organization have been summarized on a functional basis on the accompanying statements of activities. Accordingly, certain expenses have been allocated among the program and supporting services in reasonable ratios determined by management.

[8] Cash equivalents:

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, and are reported as part of cash and cash equivalents, except those amounts that are held for long-term investment.

[9] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

[10] Measure of operations:

Unrestricted operating net assets include resources used for the general support of the Organization's operations and program activities.

Nonoperating activities include: (1) gain/loss on sale of property and equipment, (2) net unrealized and realized losses, (3) changes in value of split-interest agreements, and (4) other items considered to be unusual or nonrecurring in nature.

[11] Income taxes:

The Internal Revenue Service (the "IRS") has recognized Learning Ally as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Management has analyzed the tax positions taken by the Organization and has concluded that as of June 30, 2016 and 2015, there are no uncertain tax positions taken or expected to be taken that would require the recognition of a liability or disclosure in the financial statements. The Organization recognizes accrued interest and penalties associated with uncertain tax provisions, if any. There were no income tax-related interest and penalties recorded for the years ended June 30, 2016 and 2015.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[12] Concentrations of risk:

The Organization maintains a significant investment portfolio, which includes money market funds, mutual funds, U.S. Government securities, corporate stocks and 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 regularly reviews the performance and risks associated with these investments. In addition, the Organization utilizes the services of an external 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.

The Organization maintains its cash and cash equivalents in various bank deposit accounts that may exceed federally insured limits at times. To minimize risk, the Organization places its cash accounts with high credit quality financial institutions. The Organization has not experienced, nor does it anticipate nonperformance by these financial institutions.

[13] New accounting pronouncements:

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)". ASU 2016-02 requires lessees to recognize all leases (with terms more than 12 months) at the commencement date the following, i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified lease term. The new lease guidance also simplifies the accounting for sale and leaseback transactions. Lessees will no longer be provided with a source of off-balance sheet financing. For nonpublic business entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the new standard will have on the financial statements and related disclosures.

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, "Not-for-Profit Entities" (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14"). ASU 2016-14 amends the presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: a) net asset classes, b) investment return, c) expenses, d) liquidity and availability of resources and e) presentation of operating cash flows. The new standard will be effective for annual reporting periods issued for fiscal years beginning after December 15, 2017, (which will be the year beginning July 1, 2018 for the Organization) with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2016-14 on its financial statements and related disclosures.

[14] Subsequent events:

The Organization evaluated subsequent events through October 5, 2016, the date these financial statements were available to be issued.

NOTE C - INVESTMENTS

Investments are stated at fair value. The fair value of all money market funds, mutual funds, and U.S. corporate stocks are based on quotations obtained from national securities exchanges as of the respective measurement date. The estimated fair value of the fund of funds is reported at the net asset value as reported by the Fund manager, which is reviewed by management for reasonableness. NAV is used as a practical expedient to estimate and report 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 which differs from NAV. As of June 30, 2016 and 2015, the Organization had no specific plans or intentions to sell investments at amounts different than NAV. Because the fund of funds is not readily marketable, its estimated fair 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 and the difference could be material.

Investments as of June 30, 2016 and 2015 consist of the following:

	2016	2015
Money market funds	**$ 120,129**	$ 70,382
Mutual funds	**407,256**	395,892
U.S. corporate stocks	**206,100**	313,088
Fund of funds	**15,214,987**	18,254,288
	$ 15,948,472	$ 19,033,650

For the years ended June 30, 2016 and 2015, $17,319 and $14,344, respectively, of investment fees were netted against interest and dividends on the accompanying statements of activities.

NOTE D - FAIR VALUE HIERARCHY

Fair Value Measurements and Disclosure establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. *Fair Value Measurements and Disclosure* defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants.

In determining fair value, the Organization uses various approaches, including market, income and/or cost approaches. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Fair Value Measurements and Disclosure and the Organization's related types are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level I prices such as quoted prices for similar assets or liabilities; quoted 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.

NOTE D - FAIR VALUE HIERARCHY

	2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 120,129	$ 120,129	$ -	$ -
Mutual funds	407,256	407,256	-	-
U.S. corporate stocks	206,100	206,100	-	-
Fund of funds measured at NAV (A)	15,214,987	-	-	-
	15,948,472	733,485	-	-
Split interest agreements and other arrangements	1,090,163	-	-	1,090,163
Beneficial interest in perpetual trusts	2,730,765	-	-	2,730,765
		-	-	
	$ 19,769,400	$ 733,485	$ -	$ 3,820,928

	2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 70,382	$ 70,382	$ -	$ -
Mutual funds	395,892	395,892	-	-
U.S. corporate stocks	313,088	313,088	-	-
Fund of funds measured at NAV (A)	18,254,288	-	-	-
	19,033,650	779,362	-	-
Split interest agreements and other arrangements	1,194,787	-	-	1,194,787
Beneficial interest in perpetual trusts	2,880,471	-	-	2,880,471
	$ 23,108,908	$ 779,362	$ -	$ 4,075,258

(A) Certain investments that are measured at fair value using net asset value NAV per share (or its equivalent) as the practical expedient have not been classified as Level 1, 2, or 3 in the fair value hierarchy. The fund of funds employs a globally diversified portfolio which seeks to achieve total return which exceeds inflation plus 5%. The fund has no unfunded commitments as of June 30, 2016 and 2015.

NOTE D - FAIR VALUE HIERARCHY (CONTINUED)

The following table presents the Organization's activity for all Level 3 assets measured at fair value on an annual basis for the years ended June 30, 2016 and 2015:

	2016		
	Total Level 3	**Beneficial Interest in Perpetual Trusts**	**Split Interest Agreements and Other Arrangements**
Balance June 30, 2015	**$ 4,075,258**	**$ 2,880,471**	**$ 1,194,787**
Additions	**-**	**-**	**-**
Distributions	**(229,883)**	**(125,222)**	**(104,661)**
Change in value of split interest agreements and other arrangements	**37**	**-**	**37**
Net realized and unrealized loss	**(24,484)**	**(24,484)**	**-**
Ending balance, June 30, 2016	**$ 3,820,928**	**$ 2,730,765**	**$ 1,090,163**

	2015		
	Total Level 3	**Beneficial Interest in Perpetual Trusts**	**Split Interest Agreements and Other Arrangements**
Balance June 30, 2014	$ 4,247,914	$ 2,956,444	$ 1,291,470
Additions	-	-	-
Distributions	(260,388)	(116,348)	(144,040)
Change in value of split interest agreements and other arrangements	47,357	-	47,357
Net realized and unrealized gains	40,375	40,375	-
Ending balance, June 30, 2015	$ 4,075,258	$ 2,880,471	$ 1,194,787

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended June 30, 2016 and 2015, there were no transfers into or out of levels 1, 2, or 3.

NOTE E - ENDOWMENT

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

[1] Interpretation of relevant law:

The Board of Directors of the Organization has interpreted the 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 fund absent explicit donor stipulations to the contrary. The Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment, and (c) accumulations to its 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 such amounts are appropriated for expenditure 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:

- The duration and preservation of the fund;
- The purposes of the Organization and its donor-restriction endowment;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from endowment investments;
- Other resources of the Organization; and,
- The investment policy of the Organization.

The following represents the Organization's endowment funds, by net asset category, as of June 30, 2016 and 2015, which excludes the Organization's beneficial interest in perpetual trusts:

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	**$ (115,102)**	**$ 4,133,364**	**$ 9,485,774**	**$ 13,504,036**

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (33,570)	$ 4,421,746	$ 9,485,774	$ 13,873,950

Permanently restricted net assets include $2,730,765 and $2,880,471, respectively at June 30, 2016 and 2015, of perpetual trusts which is not reflected above as a component of permanently restricted endowment funds.

NOTE E - ENDOWMENT (CONTINUED)

[1] Interpretation of relevant law: (continued)

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, at June 30, 2015	**$ (33,570)**	**$ 4,421,746**	**$ 9,485,774**	**$ 13,873,950**
Investment return:				
Investment income, net of fees	**131,474**	**465,025**	**-**	**596,499**
Net depreciation (realized and unrealized)	**(213,006)**	**(753,407)**	**-**	**(966,413)**
Total investment return	**(81,532)**	**(288,382)**	**-**	**(369,914)**
Contributions	**-**	**-**	**-**	**-**
Appropriation of endowment assets for expenditure	**-**	**-**	**-**	**-**
Endowment net assets, at June 30, 2016	**$ (115,102)**	**$ 4,133,364**	**$ 9,485,774**	**$ 13,504,036**

	2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, at June 30, 2014	$ (15,071)	$ 4,487,177	$ 9,485,774	$ 13,957,880
Investment return:				
Investment income, net of fees	205,309	726,183	-	931,492
Net depreciation (realized and unrealized)	(223,808)	(791,614)	-	(1,015,422)
Total investment return	(18,499)	(65,431)	-	(83,930)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, at June 30, 2015	$ (33,570)	$ 4,421,746	$ 9,485,774	$ 13,873,950

NOTE E - ENDOWMENT (CONTINUED)

[1] Interpretation of relevant law: (continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation	**$ 9,485,774**	$ 9,485,774
Total endowment funds classified as permanently restricted net assets	**$ 9,485,774**	$ 9,485,774
Temporarily Restricted Net Assets		
The portion of perpetual endowment funds which must be appropriated for expenditure before use:		
Without purpose restrictions	**$ 18,839**	$ 20,054
With purpose restrictions	**4,114,525**	4,401,692
	$ 4,133,364	$ 4,421,746

[2] Funds with deficiencies:

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled $115,102 and $33,570 as of June 30, 2016 and 2015, respectively. These deficiencies resulted primarily from unfavorable market fluctuations.

[3] 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 Directors, 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 fund, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

[4] 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. Since fiscal 2010, the Board of Directors suspended the application of its spending policy, given the uncertain business climate.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. It is the Organization's policy to capitalize property and equipment over $1,000 and lesser amounts are expensed. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets and consists of the following as of June 30, 2016 and 2015:

	2016	2015	Depreciable Life
Land	**$ 856,510**	$ 1,006,510	
Buildings and improvements	**6,949,244**	7,124,261	10 - 40 years
Leasehold improvements	**372,812**	372,812	5 - 40 years
Recording and office equipment	**14,170,539**	13,670,422	3 - 10 years
Vehicles	**34,592**	34,592	3 years
Construction in progress	**131,969**	38,832	
	22,515,666	22,247,429	
Less: accumulated depreciation	**(18,256,732)**	(17,834,381)	
Property and equipment, net	**$ 4,258,934**	$ 4,413,048	

Depreciation expense was $568,618 and $615,027 for the years ended June 30, 2016 and 2015, respectively.

Property and equipment recorded under a capital lease (Note M), and related accumulated depreciation at June 30, 2016 was $298,160, and $44,724 respectively. Depreciation expense for the year ended June 30, 2016 for property and equipment recorded under capital lease was $44,724.

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2016 and 2015. In the opinion of management, there was no impairment during the year ended June 30, 2016. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

NOTE G - DONATED SERVICES, GOODS AND RENT

The Organization is dependent on volunteer time to record new audiobooks. To properly recognize the significant role of volunteers and contributions of services in furtherance of the Organization's mission, the Organization has adopted procedures to both accumulate and measure the fair value of certain donated services related to the recording of books provided by professionals. Donated services for the Organization consist primarily of recording studio time incurred/contributed by volunteers, which has been valued at $79 and $76 per hour for the years ended June 30, 2016 and 2015, 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 on the statements of activities and have been allocated to the functions benefited and included volunteer services of $6,942,985 and $8,788,831, and donated books and in-kind donations of $24,108 and $128,244, for the years ended June 30, 2016 and 2015, respectively.

NOTE G - DONATED SERVICES, GOODS AND RENT (CONTINUED)

The Organization also received the right to use office space in various locations, pursuant to executed lease agreements, at a cost that is below fair value for terms ranging from ten to twenty years. The Organization also received the right to use other donated office space on an annual renewable basis at amounts less than fair value during the years ended June 30, 2016 and 2015. The contributed rent recognized for all donated office space for each of the years ended June 30, 2016 and 2015 totaled $60,750 and was recognized as revenue and expense on the statements of activities.

NOTE H - RESTRICTIONS ON NET ASSET BALANCES

[1] Temporarily restricted net assets:

Temporarily restricted net assets consist of gifts and other unexpended revenues and gains available for the following purposes as of June 30, 2016 and 2015:

	2016	2015
Program activities	**$ 1,305,863**	$ 1,796,247
Temporarily restricted endowment income - not yet appropriated	**4,133,364**	4,421,746
	5,439,227	6,217,993
Donated space	**106,047**	127,384
Split-interest agreements	**1,090,163**	1,194,787
Time restricted contributions	**4,997,634**	2,272,322
	$ 11,633,071	$ 9,812,486

[2] Permanently restricted net assets:

Permanently restricted net assets consist of beneficial interests in perpetual trusts and endowment gifts from donors with donor specified restrictions that the principal be maintained in perpetuity and the income is used primarily for library services, National Achievement Awards or unrestricted purposes.

NOTE I - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of unconditional promises to give including donated rent, and are expected to be received as follows:

	2016	2015
Less than one year	**$ 1,750,126**	$ 521,609
One to five years	**2,124,326**	549,350
More than five years	**1,666,667**	1,763,012
	5,541,119	2,833.971
Less:		
Allowance for uncollectible promises	**(31,716)**	(43,646)
Present value discount (3.09% to 3.68% in both 2016 and 2015)	**(405,722)**	(390,619)
Contributions receivable, net	**$ 5,103,681**	$ 2,399,706

During fiscal 2016 and 2015, the Organization was notified of certain intentions to give. Consistent with U.S. GAAP, such amounts have not been reflected on the accompanying financial statements due to their conditional nature.

NOTE J - RETIREMENT PLANS

The Organization implemented the Learning Ally 401(k) Plan (the "LA Plan") effective January 1, 2014. Substantially all employees, who meet the eligibility requirements, can make contributions to the LA Plan upon hire and such contributions vest immediately. Under the safe-harbor component of the LA Plan, Learning Ally matches employee contributions to the LA Plan of eligible participants at 100% up to 3% of eligible salary and then at 50% from 3% to a cap of 5% of eligible salary, subject to Internal Revenue Service rules and limitations. The LA Plan also enables the Organization to make discretionary contributions on behalf of those eligible participants making contributions to the Plan. Employees are eligible to receive matching contributions after one year of service. Participants fully vest in matching contributions made under the safe-harbor component at the time of contribution. Discretionary contributions made on behalf of employees vest over time.

The Organization discontinued its matching and safe harbor contribution to the LA Plan effective July 1, 2015. In June 2016, the Organization determined a discretionary contribution of $224,004 be made in lieu of its matching contribution. No such determination was made for the year ended June 30, 2015, a year in which the Organization's matching contribution was in effect.

Learning Ally's retirement plan expense, on behalf of employees, totaled $224,004 and $290,737 for the years ended June 30, 2016 and 2015, respectively.

NOTE K - FUNCTIONALIZED EXPENSE CLASSIFICATIONS

During each fiscal year, the Organization's expenses, as reported on a functional basis, were as follows:

	2016	2015
Program	**$ 19,130,829**	$ 23,764,603
General and administrative (includes investment management fees of $17,319 and $14,344)	**2,986,363**	3,323,606
Fundraising	**2,082,528**	2,196,412
Total functionalized expenses	**$ 24,199,720**	$ 29,284,621

NOTE L - COMMITMENTS AND CONTINGENCIES

[1] Commitments:

The Organization is obligated under several service contracts and operating leases for rentals of office space and equipment that expire at various dates through 2024. The approximate future minimum annual payments due under noncancelable service contracts and operating leases are as follows:

Year Ending June 30,	Amount
2017	$ 872,000
2018	440,000
2019	348,000
2020	220,000
2021	58,000
Thereafter	122,000
Total	$ 2,060,000

The estimated sum of rental payments to be made over the life of all operating office 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 office leases, inclusive of amounts for donated space, approximated $554,000 and $812,000 for the years ended June 30, 2016 and 2015, respectively.

[2] Litigation:

The Organization is a party to litigation and other claims in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position, changes in net assets or cash flows of the Organization.

NOTE M - CAPITAL LEASE OBLIGATION

In 2016, the Organization entered into a capital lease for property and equipment expiring in July 31, 2020. The following is a schedule, by year, of future minimum lease payments under capital lease obligations, together with the present value of the net minimum lease payments, as of June 30, 2016:

Year Ending June 30,	Amount
2017	$ 67,103
2018	67,103
2019	67,103
2020	67,103
2021	5,592
Total minimum lease payments	274,004
Less amount representing interest	25,358
Present value on minimum lease payments	$ 248,646

The present value of minimum future obligations shown above is calculated based on an interest rate of 2.51%.

NOTE N - GRANTS AND OTHER RECEIVABLES

Grants and other receivables consist of the following at June 30, 2016 and 2015:

	2016	2015
Government grants	**$ 34,311**	$ 26,875
Customer and other receivables	**295,272**	265,296
	329,583	292,171
Less: allowance for doubtful accounts	**-**	(400)
Grants and other receivables, net	**$ 329,583**	$ 291,771

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