

**RECORDING FOR THE BLIND & DYSLEXIC, INC.**

**FINANCIAL REPORTING PACKAGE**

**YEARS ENDED JUNE 30, 2010 AND 2009**

RECORDING FOR THE BLIND & DYSLEXIC, INC.

YEARS ENDED JUNE 30, 2010 AND 2009

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**EXHIBIT 1**

FLORIDA UNIT OF RECORDING FOR THE BLIND & DYSLEXIC, INC.  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 2010

*Sharff, Wittmer, Kurtz & Jackson, P.A.*

CERTIFIED PUBLIC ACCOUNTANTS

FLORIDA UNIT OF RECORDING FOR THE BLIND & DYSLEXIC, INC.

YEAR ENDED JUNE 30, 2010

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# *Sharff, Wittmer, Kurtz & Jackson, P.A.*

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT


To the Board of Directors of the  
Recording for the Blind & Dyslexic, Inc.  
Princeton, New Jersey

We have audited the accompanying schedule of expenditures of state financial assistance for the Florida Unit of Recording for The Blind & Dyslexic, Inc. for the year ended June 30, 2010. This schedule is the responsibility of the Florida Unit of Recording for The Blind & Dyslexic, Inc.'s management. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of state financial assistance referred to above presents fairly, in all material respects, the expenditures of state awards under the Learning Through Listening Project in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2011 on our consideration of Florida Unit of Recording for The Blind & Dyslexic, Inc.'s compliance with requirements applicable to the major state project and on internal control over compliance in accordance with the State of Florida, Rules of the Auditor General, Chapter 10.650 – State Single Audits. The purpose of that report is to describe the scope of our testing of compliance and internal control over compliance and the results of that testing, and not to provide opinions on the effectiveness of internal control over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

  
SHARFF, WITTMER, KURTZ & JACKSON, P.A.  
Certified Public Accountants

Coral Gables, Florida  
March 1, 2011

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO THE MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH STATE OF FLORIDA, RULES OF  
THE AUDITOR GENERAL, CHAPTER 10.650-STATE SINGLE AUDITS  
NONPROFIT AND FOR-PROFIT ORGANIZATIONS, EFFECTIVE  
SEPTEMBER 30, 2009

To the Board of Directors of the  
Recording for the Blind & Dyslexic, Inc.  
Princeton, New Jersey

Compliance

We have audited the compliance of the Florida Unit of Recording for The Blind & Dyslexic, Inc. (a nonprofit organization) with the types of compliance requirements described in the State of Florida, Rules of The Auditor General, Chapter 10.650-State Single Audits Nonprofit and For-Profit Organizations, effective September 30, 2009 that are applicable to the major state project for the year ended June 30, 2010. The Florida Unit of Recording for The Blind & Dyslexic, Inc.'s major state project is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs relating to state financial assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major state project is the responsibility of the Florida Unit of Recording for The Blind & Dyslexic, Inc.'s management. Our responsibility is to express an opinion on the Florida Unit of Recording for The Blind & Dyslexic, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Florida Unit of Recording for The Blind & Dyslexic, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Florida Unit of Recording for The Blind & Dyslexic, Inc.'s compliance with those requirements.

In our opinion, the Florida Unit of Recording for The Blind & Dyslexic, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major state project for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Florida Unit of Recording for The Blind & Dyslexic, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects.

In planning and performing our audit, we considered the Florida Unit of Recording for The Blind & Dyslexic, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Florida Unit of Recording for The Blind & Dyslexic, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
SHARFF, WITTMER, KURTZ & JACKSON, P.A.  
Certified Public Accountants

Coral Gables, Florida  
March 1, 2011

FLORIDA UNIT OF RECORDING FOR THE BLIND & DYSLEXIC, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATING TO STATE FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report and opinion on the financial statements, and report on compliance and internal control based on the audit of the financial statements, were prepared by other auditors.
2. No significant deficiencies relating to the audit of the major state award project are reported in the report on compliance with requirements applicable to the major state project and on internal control over compliance in accordance with State of Florida, Rules of the Auditor General, Chapter 10.650-State Single Audits Nonprofit and For-Profit Organizations, effective September 30, 2009.
3. The auditor's report on compliance for the major state project for the Florida Unit of Recording for The Blind & Dyslexic, Inc. expresses an unqualified opinion on the major state project.
4. Our audit disclosed no findings required to be reported related to State projects required to be disclosed under Chapter 10.656 for nonprofit and for-profit organizations.
5. The project tested as a major program include: State of Florida, Department of Education, Learning Through Listening, CFSA No. 48.066.
6. The threshold used for distinguishing between Type A and B project was \$500,000. However, there was only one state project for the year ended June 30, 2010 and it is Type A.
7. There are no prior audit findings to report, therefore, there is no schedule of prior audit findings present.
8. No management letter is required because there were no findings required to be reported in the management letter.
9. No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.

FLORIDA UNIT OF RECORDING FOR THE BLIND & DYSLEXIC , INC.  
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
 YEAR ENDED JUNE 30, 2010

	<u>CSFA #</u>	<u>Contract Grant #</u>	<u>Expenditures</u>	<u>Transfer to Subrecipients</u>
Florida Department of Education (DOE) Bureau of Exceptional Education and Student Services (BEESS)	48.066	780-95550-0Q001	<u>\$ 779,817</u>	<u>-</u>
Total Expenditures of State Financial Assistance			<u><u>\$ 779,817</u></u>	<u><u>-</u></u>

FLORIDA UNIT OF RECORDING FOR THE BLIND & DYSLEXIC, INC.  
NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
JUNE 30, 2010

NOTE 1 - BASIS OF PRESENTATION

The schedule of expenditures of state financial assistance (the Schedule) includes the state grant activity of the Florida Unit of Recording for the Blind & Dyslexic, Inc. under projects of the State of Florida for the year ended June 30, 2010. The information in this Schedule is presented in accordance with the requirements of Chapter 10.650, Rules of the Auditor General. Because the Schedule presents only a selected portion of the operations of the Florida Unit of Recording for the Blind & Dyslexic, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Florida Unit of Recording for the Blind & Dyslexic, Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are reported in accordance with the Department of Financial Services Rule 69I-5.008, Florida Administrative Code.

**EXHIBIT 2**

**EXHIBIT 2**



**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 I 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)

<b>Assets</b>	<b>2010</b>	<b>2009</b>
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>
<b>Liabilities and Net Assets</b>		
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)

	2010	2009
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	567,697	(2,252,750)
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	(1,208,803)	4,872,275
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	(53,425)	(3,037,996)
Net decrease in cash and cash equivalents	(694,531)	(418,471)
Cash and cash equivalents as of beginning of year	2,974,213	3,392,684
Cash and cash equivalents as of end of year	\$ 2,279,682	2,974,213
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.

## RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(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

June 30, 2010

(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				
	Fair value	Level 1	Level 2	Level 3	Redemption or Liquidation	
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

June 30, 2010

(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>	<u>—</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:

	<b>2010</b>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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:

	2010	2009	Depreciable life
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	—	—
	27,620,309	30,063,828	
Less accumulated depreciation	(17,344,871)	(19,497,302)	
Net property and equipment	\$ 10,275,438	10,566,526	

**(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:

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

*(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:

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

**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	19,896,988
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.

**EXHIBIT 3**



**RECORDING FOR THE BLIND & DYSLEXIC, INC.**

Financial Statements and Schedule  
of Expenditures of Federal Awards

June 30, 2010

(With Independent Auditors' Reports 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2010 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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	<u>2010</u>	<u>2009</u>
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)	<u>10,275,438</u>	<u>10,566,526</u>
Total assets	<u>\$ 50,269,397</u>	<u>46,897,011</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,278,712	4,173,693
Lines of credit and mortgage (note 9)	<u>1,989,001</u>	<u>2,059,810</u>
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)	<u>9,869,154</u>	<u>9,778,336</u>
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>\$ 2,279,682</u>	<u>2,974,213</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.

## RECORDING FOR THE BLIND & DYSLEXIC, INC.

Notes to Financial Statements

June 30, 2010

(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

June 30, 2010

(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				
		Fair value	Level 1	Level 2	Level 3	Redemption or Liquidation
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
		32,185,588	24,975,654	7,209,934	—	
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

June 30, 2010

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

**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:

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

*(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:

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

**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	<u>129,185</u>	<u>381,222</u>
	<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 Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal grantor/pass through grantor/program title</u>	<u>Federal CFDA/ other identifying number</u>	<u>Current year expenditures</u>
U.S. Department of Education:		
Special Education Technology and Media Services for Individuals with Disabilities	84.327D	\$ 13,250,000
Fund for the Improvement of Education	84.215K	42,021
Special Education Cluster (IDEA):		
Passed through Texas Education Agency:		
RFB&D Learning through Listening Educational Outreach Program	84.027	75,661
U.S. Department of Energy:		
New Service Technology and System Infrastructure Upgrade	81.049	119,419
U.S. Department of Justice:		
RFB&D Learning through Listening Program/OJJDP FY08 Earmarks Program	2008-JL-FX-0106	<u>74,718</u>
Total expenditures of Federal awards		<u>\$ 13,561,819</u>

See accompanying note to schedule of expenditures of Federal awards.

**RECORDING FOR THE BLIND & DYSLEXIC, INC.**

Note to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

**Basis of Presentation**

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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**Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of Recording for the Blind & Dyslexic, Inc. (the Organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of the board of directors and management of Recording for the Blind & Dyslexic, Inc., others within the entity and Federal awarding agencies and pass-through entities which provided funding, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 19, 2010



KPMG LLP  
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**Independent Auditors' Report on Compliance With Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control Over Compliance in Accordance With Federal OMB Circular A-133**

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

**Compliance**

We have audited the compliance of Recording for the Blind & Dyslexic, Inc. (the Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major Federal program for the year ended June 30, 2010. The Organization's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, Recording for the Blind & Dyslexic, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2010.

**Internal Control Over Compliance**

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.



A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors and management of Recording for the Blind & Dyslexic, Inc., others within the entity and Federal awarding agencies and pass-through entities which provided funding, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 16, 2011

**RECORDING FOR THE BLIND & DYSLEXIC, INC.**

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**(1) Summary of Auditors' Results:**

- (a) An unqualified opinion was issued on the financial statements of Recording for the Blind & Dyslexic, Inc. as of and for the year ended June 30, 2010.
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: None reported. Material weaknesses: No
- (c) The audit disclosed no instances of noncompliance which are material to the financial statements of Recording for the Blind & Dyslexic, Inc. as of and for the year ended June 30, 2010.
- (d) Significant deficiencies in internal control over major programs: None reported. Material weaknesses: No
- (e) An unqualified opinion was issued on Recording for the Blind & Dyslexic, Inc.'s compliance with its major Federal program for the year ended June 30, 2010.
- (f) Audit findings that are required to be reported under Section 510(a) of Federal OMB Circular A-133 for the year ended June 30, 2010: No
- (g) The major Federal program of Recording for the Blind & Dyslexic, Inc. for the year ended June 30, 2010 is as follows:
  - Special Education Technology and Media Services for Individuals with Disabilities (CFDA No. 84.327D)
- (h) The dollar threshold used to distinguish between type A and type B programs was \$406,855 for Federal awards for the year ended June 30, 2010.
- (i) Recording for the Blind & Dyslexic, Inc. qualified as a low risk auditee for Federal awards for the year ended June 30, 2010.

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:**

None.

**(3) Findings and Questioned Costs Relating to Federal Awards:**

None.