

Financial Statements and OMB Circular A-133, State of Texas Uniform
Grant Management Standards and Reports Required by the
Comptroller General of the United States and the Rules of the
Auditor General of the State of Florida Supplementary Information
Together with Reports of Independent Certified Public Accountants

LEARNING ALLY, INC.

For the year ended June 30, 2011

LEARNING ALLY, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Learning Ally, Inc.:

We have audited the accompanying statement of financial position of Learning Ally, Inc. (the “Organization”) as of June 30, 2011, 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 fiscal 2010 financial statements. The financial statements of the Organization as of and for the year ended June 30, 2010, were audited by other auditors. Those auditors expressed an unqualified opinion on those statements in their report dated October 19, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 Learning Ally, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, 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 22, 2012 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 the effectiveness of the Organization’s 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 conducted for the purpose of forming an opinion on the basic 2011 financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal, State of Texas and State of Florida Awards for the year ended June 30, 2011, is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, State of Texas Uniform Grant Management Standards, and Chapter 10.650, "Rules of the State of Florida Auditor General," and is not a required part of the basic 2011 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 2011 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 2011 financial statements taken as a whole.

Grant Thornton LLP

Edison, New Jersey
March 22, 2012

LEARNING ALLY, INC.
Statements of Financial Position
As of June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 4,287,628 | \$ 2,279,682 |
| Grants and other receivables (Note 13) | 3,593,381 | 2,650,960 |
| Contributions receivable, net (Note 9) | 2,041,701 | 1,332,543 |
| Investments (Notes 3, 4 and 10) | 34,703,584 | 32,185,588 |
| Prepaid expenses and other assets | 715,089 | 940,186 |
| Beneficial interest in perpetual trusts (Note 4) | 690,569 | 605,000 |
| Property and equipment, net (Note 6) | <u>9,397,005</u> | <u>10,275,438</u> |
| Total assets | <u>\$ 55,428,957</u> | <u>\$ 50,269,397</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 3,246,935 | \$ 4,278,712 |
| Deferred revenue | 1,206,496 | - |
| Mortgage (Note 10) | <u>1,910,554</u> | <u>1,989,001</u> |
| Total liabilities | <u>6,363,985</u> | <u>6,267,713</u> |
| COMMITMENTS (Note 12) | | |
| NET ASSETS | | |
| Unrestricted | 31,543,393 | 28,643,072 |
| Temporarily restricted (Note 8) | 7,566,458 | 5,489,458 |
| Permanently restricted (Notes 5 and 8) | <u>9,955,121</u> | <u>9,869,154</u> |
| Total net assets | <u>49,064,972</u> | <u>44,001,684</u> |
| Total liabilities and net assets | <u>\$ 55,428,957</u> | <u>\$ 50,269,397</u> |

The accompanying notes are an integral part of these financial statements.

LEARNING ALLY, INC.

Statement of Activities

For the year ended June 30, 2011, with summarized comparative financial information
for the year ended June 30, 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2011 | 2010 |
|--|----------------------|---------------------------|---------------------------|----------------------|----------------------|
| OPERATING ACTIVITIES | | | | | |
| Revenues and other support: | | | | | |
| Contributions and private grants | \$ 4,326,359 | \$ 1,280,343 | \$ - | \$ 5,606,702 | \$ 6,845,883 |
| Legacies and trusts | 1,327,681 | - | - | 1,327,681 | 1,750,441 |
| Government grants and contracts | 16,585,805 | - | - | 16,585,805 | 16,805,417 |
| Donated services and rent (Note 7) | 19,401,861 | 819,686 | - | 20,221,547 | 19,654,282 |
| Special events | 266,588 | 25,500 | - | 292,088 | 352,011 |
| Interest and dividends | 665,177 | 417,067 | 12,654 | 1,094,898 | 616,383 |
| Fees and product sales | 3,133,338 | - | - | 3,133,338 | 4,258,206 |
| Endowment spending (Note 5) | - | - | - | - | 6,000 |
| Other revenues | 1,830,514 | - | - | 1,830,514 | 2,610,235 |
| Total revenues | <u>47,537,323</u> | <u>2,542,596</u> | <u>12,654</u> | <u>50,092,573</u> | <u>52,898,858</u> |
| Net assets released from restrictions | <u>1,915,146</u> | <u>(1,873,751)</u> | <u>(41,395)</u> | <u>-</u> | <u>-</u> |
| Total revenues and other support | <u>49,452,469</u> | <u>668,845</u> | <u>(28,741)</u> | <u>50,092,573</u> | <u>52,898,858</u> |
| Expenses: | | | | | |
| Program services: | | | | | |
| Recording studio | 24,257,390 | - | - | 24,257,390 | 24,334,016 |
| Production | 6,159,517 | - | - | 6,159,517 | 4,304,509 |
| Services coordination | 8,848,197 | - | - | 8,848,197 | 8,992,561 |
| Total program services | <u>39,265,104</u> | <u>-</u> | <u>-</u> | <u>39,265,104</u> | <u>37,631,086</u> |
| Supporting services: | | | | | |
| Administration | 4,803,597 | - | - | 4,803,597 | 7,849,552 |
| Fundraising | 4,549,217 | - | - | 4,549,217 | 6,369,207 |
| Public affairs | 828,196 | - | - | 828,196 | 749,312 |
| Total supporting services | <u>10,181,010</u> | <u>-</u> | <u>-</u> | <u>10,181,010</u> | <u>14,968,071</u> |
| Total expenses | <u>49,446,114</u> | <u>-</u> | <u>-</u> | <u>49,446,114</u> | <u>52,599,157</u> |
| Excess (deficiency) of revenues and other support over expenses before nonoperating activities | 6,355 | 668,845 | (28,741) | 646,459 | 299,701 |
| NONOPERATING ACTIVITIES | | | | | |
| Gain (loss) on disposal and sale of property and equipment | 422,357 | - | - | 422,357 | (5,878) |
| Appropriation of endowment earnings for expenditure | - | - | - | - | (6,000) |
| Net unrealized and realized gains on investments | <u>2,471,609</u> | <u>1,408,155</u> | <u>114,708</u> | <u>3,994,472</u> | <u>3,050,353</u> |
| Change in net assets | 2,900,321 | 2,077,000 | 85,967 | 5,063,288 | 3,338,176 |
| Net assets, beginning of year | <u>28,643,072</u> | <u>5,489,458</u> | <u>9,869,154</u> | <u>44,001,684</u> | <u>40,663,508</u> |
| Net assets, end of year | <u>\$ 31,543,393</u> | <u>\$ 7,566,458</u> | <u>\$ 9,955,121</u> | <u>\$ 49,064,972</u> | <u>\$ 44,001,684</u> |

The accompanying notes are an integral part of this financial statement.

LEARNING ALLY, INC.
Statements of Cash Flows
For the years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 5,063,288 | \$ 3,338,176 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,145,652 | 1,313,435 |
| Change in discount and allowance in contributions receivable | 182,339 | (102,498) |
| (Gain) loss on disposal and sale of property and equipment | (422,357) | 5,879 |
| Net unrealized and realized gains on investments | (3,994,472) | (3,020,353) |
| Revenues permanently restricted for long-term investment | (12,654) | (17,384) |
| Change in value of beneficial interest in perpetual trusts | (85,569) | (72,898) |
| Increase in grants and other receivables | (942,421) | (1,075,373) |
| (Increase) decrease in contributions receivable | (891,497) | 89,839 |
| Decrease in prepaid expenses and other assets | 225,097 | 3,855 |
| (Decrease) increase in accounts payable and accrued expenses | (1,031,777) | 105,019 |
| Increase in deferred revenue | 1,206,496 | - |
| Net cash provided by operating activities | <u>442,125</u> | <u>567,697</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (30,960,370) | (2,676,627) |
| Proceeds from sales of investments | 32,436,846 | 2,496,050 |
| Purchases of property and equipment | (623,983) | (1,028,401) |
| Proceeds from sale of property and equipment | 779,121 | 175 |
| Net cash provided by (used in) investing activities | <u>1,631,614</u> | <u>(1,208,803)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowing | - | 2,975,000 |
| Repayment of borrowing on mortgage and line of credit | (78,447) | (3,045,809) |
| Revenues permanently restricted for long-term investment | 12,654 | 17,384 |
| Net cash used in financing activities | <u>(65,793)</u> | <u>(53,425)</u> |
| Net increase (decrease) in cash and cash equivalents | 2,007,946 | (694,531) |
| Cash and cash equivalents as of beginning of year | <u>2,279,682</u> | <u>2,974,213</u> |
| Cash and cash equivalents as of end of year | <u>\$ 4,287,628</u> | <u>\$ 2,279,682</u> |
| Supplemental disclosure of cash flow information: | | |
| Donated services | <u>\$ 20,221,547</u> | <u>\$ 19,654,282</u> |
| Interest paid | <u>\$ 83,696</u> | <u>\$ 104,586</u> |

The accompanying notes are an integral part of these financial statements.

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

1. ORGANIZATION

Founded in 1948 as Recording for the Blind, Learning Ally (the "Organization") serves more than 300,000 K-12, college and graduate students, veterans and lifelong learners – all of whom cannot read standard print due to blindness, visual impairment, dyslexia, or other learning disabilities. Learning Ally's collection of more than 70,000 digitally recorded textbooks and literature titles – downloadable and accessible on mainstream as well as specialized assistive technology devices – is the largest of its kind in the world. More than 6,000 volunteers across the U.S. help to record and process the educational materials, which students rely on to achieve academic and professional success. The Organization's mission is to promote personal achievement when access and reading are barriers to learning by advancing the use of accessible and effective educational solutions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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 either 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 in the statement of activities. Gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations.

Government Grants

Revenue from federal and state grants is recognized to the extent that qualifying reimbursable expenses have been incurred over the terms of the respective agreements.

Fees and Product Sales

Product sales revenue is recorded when the product is delivered to the customer. Membership fees are recognized ratably over the contract period. Membership fees collected which relate to the next fiscal year are deferred until earned and recorded as deferred revenue on the statement of financial position. During fiscal 2011, Learning Ally revised its method of recognizing membership revenues. Previously,

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

membership revenues were recognized upon execution of the respective membership agreement. Beginning with fiscal 2011, Learning Ally now apportions revenues related to memberships which span fiscal years amongst the fiscal years to which they pertain. Amounts received in advance are deferred.

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 an appropriate discount (at a credit-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 restrictions, if any. Allowances are recorded for estimated uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Beneficial Interest in Perpetual Trusts

The Organization is the beneficiary of certain perpetual trust agreements that are held and administered by independent trustees. The beneficial interest in the trust is recorded at the fair value of the assets at the statement of financial position date less the present value of estimated future payments expected to be made to donors and/or other beneficiaries.

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

Contributions of property and equipment without donor-imposed stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment pursuant to donor-imposed 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.

Prior Year Summarized Financial Information

The accompanying 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, 2010, from which the summarized information was derived.

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 accompanying statement of activities. Such costs attributable to specific program or administrative activities are assigned accordingly by specific identification.

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.

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

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.

Measure of Operations

Included in unrestricted operating net assets are resources used for the general support of the Organization's operations.

Nonoperating activities include: (1) gain (loss) on sale and disposal of property and equipment, (2) net unrealized and realized gains (losses) designated for long-term investment, in excess of amounts appropriated for expenditure, and (3) other items considered to be unusual or nonrecurring in nature.

Income Taxes

The Organization adopted the provisions of FASB Interpretation No. 48 ("FIN 48") *Accounting for Uncertainties in Income Taxes - an interpretation of FASB Statement No. 109*, now incorporated in Accounting Standards Codification ("ASC") 740. ASC 740-10 clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This section provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

Learning Ally is exempt from federal income taxation by virtue of being an organization described in Section 501(c)(3) of the Internal Revenue Code. Nevertheless, Learning Ally may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ending June 30, 2008, 2009, and 2010 are still open to audit for both federal and state purposes. The adoption of ASC 740-10 did not have an impact on Learning Ally's financial statements, as management determined that there are no uncertain tax positions within its financial statements.

Concentration of Risk

The Organization maintains a significant investment portfolio, which includes money market funds, mutual funds, U.S. Government securities, corporate stocks and fund of funds. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence on key individuals and nondisclosure of portfolio composition. The Organization 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.

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

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

Subsequent Events

The Organization evaluated subsequent events for potential recognition or disclosure through March 22, 2012, the date these financial statements were available to be issued. The Organization has determined there are no subsequent events to disclose.

3. INVESTMENTS

Investments are stated at fair value. The fair value of all money market funds, mutual funds, U.S. government securities and corporate stocks are based on quotations obtained from national securities exchanges. The estimated fair values of the fund of funds and alternative investment are based on valuations provided by the external investment managers, which are reviewed by management for reasonableness. The Organization's interests in fund of funds and 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, 2011 and 2010, the Organization had no specific plans or intentions to sell investments at amounts different than NAV. Because fund of funds and 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, 2011 and 2010 consist of the following:

| | <u>2011</u> | <u>2010</u> |
|----------------------------|----------------------|----------------------|
| Money market funds | \$ 178,648 | \$ 928,808 |
| Mutual funds | 10,901,424 | 14,903,403 |
| U.S. government securities | 154,423 | 182,671 |
| U.S. corporate stocks | 210,208 | 8,730,324 |
| International stocks | - | 230,448 |
| International funds | - | 4,371,168 |
| Alternative investments | - | 2,838,766 |
| Fund of funds | <u>23,258,881</u> | <u>-</u> |
| | <u>\$ 34,703,584</u> | <u>\$ 32,185,588</u> |

For fiscal 2011, \$187,753 of investment fees were netted against investment income.

4. 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

LEARNING ALLY, INC.
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can be corroborated by observable market data for substantially the full term of the assets or liabilities. Also included in Level 2 are investments measured using a NAV per share, or its equivalent, that may be redeemed at that NAV at the statement of financial position date or in the near term, which is generally considered to be within 90 days.

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. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the statement of financial position date or in the near term or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

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.

The Organization's assets at June 30, 2011 and 2010 that are reported at fair value on an annual basis are summarized in the following table by their fair value hierarchy:

| | 2011 | | | | Redemption or Liquidation |
|---|---------------------|---------------------|---------------------|-------------------|--------------------------------------|
| | Fair value | Level 1 | Level 2 | Level 3 | |
| Money market funds | \$ 178,648 | \$ 178,648 | \$ - | \$ - | Daily |
| Mutual funds | 10,901,424 | 10,901,424 | - | - | Daily |
| U.S. government securities | 154,423 | 154,423 | - | - | Daily |
| U.S. corporate stocks | 210,208 | 210,208 | - | - | Daily |
| Fund of funds | <u>23,258,881</u> | <u>-</u> | <u>23,258,881</u> | <u>-</u> | Daily |
| | 34,703,584 | 11,444,703 | 23,258,881 | - | |
| Beneficial interest in perpetual trusts | <u>690,569</u> | <u>-</u> | <u>-</u> | <u>690,569</u> | Not applicable |
| | <u>\$35,394,153</u> | <u>\$11,444,703</u> | <u>\$23,258,881</u> | <u>\$ 690,569</u> | |

The fund of funds above is valued using NAV per share. The fund employs a globally diversified portfolio which seeks to achieve total return which exceeds inflation plus 5%. The fund has no unfunded commitments as of June 30, 2011.

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

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

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, 2009 to June 30, 2011:

| | <u>Level 3</u> |
|--|-------------------|
| Beginning balance, July 1, 2009 | \$ 532,102 |
| Net realized and unrealized gains | <u>72,898</u> |
| Ending balance, June 30, 2010 | 605,000 |
| Distribution of trust assets | (41,395) |
| Interest and dividends | 12,654 |
| Net realized and unrealized gains | <u>114,310</u> |
| Ending balance, June 30, 2011 | <u>\$ 690,569</u> |

5. ENDOWMENT

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

Interpretation of Relevant Law

The Board of Directors 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 its permanent endowment, (b) the original value of subsequent gifts to its 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:

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

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

The following represents the net asset classes of the Organization's endowment funds as of June 30, 2011 and 2010, with the exception of the Organization's beneficial interest in perpetual trusts:

| | 2011 | | | Total |
|----------------------------------|---------------------|-------------------------------|-------------------------------|---------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | |
| Donor-restricted endowment funds | \$ (50,765) | \$ 4,534,163 | \$ 9,262,592 | \$ 13,745,990 |

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

Changes in donor-restricted endowment net assets for the years ended June 30, 2011 and 2010 are as follows, with the exception of the Organization's beneficial interest in perpetual trusts:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---------------------|-------------------------------|-------------------------------|----------------------|
| 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 |
| Investment return: | | | | |
| Investment income | - | 407,753 | - | 407,753 |
| Net appreciation (realized and unrealized) | 76,805 | 1,037,918 | - | 1,114,723 |
| Total investment return | 76,805 | 1,445,671 | - | 1,522,476 |
| Appropriation of endowment net assets for expenditure | - | - | - | - |
| Endowment net assets, at June 30, 2011 | \$ (50,765) | \$ 4,534,163 | \$ 9,262,592 | \$ 13,745,990 |

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

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 U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$50,765 and \$127,570 as of June 30, 2011 and 2010, respectively. These deficiencies resulted primarily from unfavorable market fluctuations.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to protect the original value of the gift. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a mix of relevant benchmarks, while assuming a moderate level of investment risk. The Organization expects its endowment 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.

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 2011 and 2010, the Organization temporarily suspended the application of its spending policy.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, 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, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> | <u>Depreciable Life</u> |
|--------------------------------|---------------------|----------------------|-----------------------------|
| Land | \$ 1,637,419 | \$ 1,832,419 | |
| Land improvements | 364,744 | 364,744 | |
| Building and improvements | 9,077,230 | 9,379,634 | 5 - 40 years |
| Leasehold improvements | 572,356 | 382,856 | 5 - 40 years |
| Recording and office equipment | 14,345,329 | 15,424,086 | 3 - 10 years |
| Vehicles | 34,592 | 34,592 | 3 years |
| Construction in progress | 166,260 | 201,978 | |
| | <u>26,197,930</u> | <u>27,620,309</u> | |
| Less accumulated depreciation | <u>(16,800,925)</u> | <u>(17,344,871)</u> | |
| Net property and equipment | <u>\$ 9,397,005</u> | <u>\$ 10,275,438</u> | |

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

During fiscal 2011, the Organization sold one of its buildings in Miami, Florida for \$775,000 resulting in a net gain of \$431,314. In addition, certain other disposals and sales of assets for \$4,121 resulted in a net loss of \$8,957.

7. 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 furtherance of the Organization's mission, the Organization adopted procedures to both accumulate and measure the fair value of certain donated services 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 \$71 and \$70 per hour for the years ended June 30, 2011 and 2010, 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 \$18,766,596 and \$18,867,776, donated books of \$216,120 and \$334,908, and in-kind donations of \$166,554 and \$101,018 for the years ended June 30, 2011 and 2010, respectively.

The Organization also received the right to use office space in various locations, pursuant to executed lease agreements, at a cost that is below fair value for terms ranging from ten to twenty five years. As of June 30, 2011, the Organization recognized a contribution of \$819,686 for the right to use this space at fair value. This contribution is included in temporarily restricted revenue and contributions receivable as of June 30, 2011. In addition, the Organization received the right to use other donated office space on an annual renewable basis again at amounts less than fair value during fiscal 2011 and 2010. The contributed rent recognized for all office space for the years ended June 30, 2011 and 2010 totaled \$252,591 and \$350,580, respectively and was recognized as revenue and expense in the statement of activities.

8. RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------|---------------------|---------------------|
| Program expenditures | \$ 6,344,442 | \$ 4,156,914 |
| Donated space | 819,686 | - |
| Time restricted contributions | <u>402,330</u> | <u>1,332,544</u> |
| | <u>\$ 7,566,458</u> | <u>\$ 5,489,458</u> |

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.

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

9. CONTRIBUTIONS RECEIVABLE, NET

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

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Less than one year | \$ 953,836 | \$ 813,146 |
| One to five years | 1,060,571 | 857,369 |
| More than five years | <u>573,531</u> | <u>25,926</u> |
| | 2,587,938 | 1,696,441 |
| Allowance for uncollectible promises | (264,327) | (323,461) |
| Present value discount (3.45% to 5.00%) | <u>(281,910)</u> | <u>(40,437)</u> |
| Contributions receivable, net | <u>\$ 2,041,701</u> | <u>\$ 1,332,543</u> |

10. LINE OF CREDIT AND MORTGAGE

The Organization has an available line of credit with a bank. There were no borrowings under the line of credit at June 30, 2011 and 2010. Interest rates range from 3.09% to 2.25% for the years ended June 30, 2011 and 2010. Interest expense for the line of credit for the years ended June 30, 2011 and 2010 was \$0 and \$6,910, respectively. The Organization has pledged certain investments as collateral against amounts drawn.

As of June 30, 2011 and 2010, the Organization has a mortgage in the amount of \$1,910,554 and \$1,989,001, respectively, for an office building with a bank qualified, tax-exempt, five-year adjustable interest rate, which is 4.75% at June 30, 2011. Interest expense for the mortgage for the years ended June 30, 2011 and 2010 was \$83,696 and \$96,657, respectively. The mortgage matures on December 1, 2027.

11. 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 immediately vest. Total retirement plan expense was approximately \$1,038,000 and \$1,122,000 in 2011 and 2010, respectively.

LEARNING ALLY, INC.
Notes to Financial Statements
June 30, 2011 and 2010

12. 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 due under noncancelable operating leases are as follows:

| Year ending June 30: | <u>Amount</u> |
|-----------------------------|----------------------|
| 2012 | \$ 939,901 |
| 2013 | 832,612 |
| 2014 | 508,722 |
| 2015 | 406,828 |
| 2016 | 76,278 |

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, inclusive of amounts for donated space, approximated \$1,661,000 and \$1,781,000 for the years ended June 30, 2011 and 2010, respectively.

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

13. GRANTS AND OTHER RECEIVABLES

Grants and other receivables consist of the following at June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|----------------------------|----------------------------|
| Government grants | \$ 3,330,716 | \$ 2,521,775 |
| Customer and other receivables | <u>262,665</u> | <u>129,185</u> |
| | <u>\$ 3,593,381</u> | <u>\$ 2,650,960</u> |

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

LEARNING ALLY, INC.**Schedule of Expenditures of Federal, State of Texas and State of Florida Awards
For the year ended June 30, 2011**

| Federal/State Grantor or Pass-Through Grantor/Program Title | Pass-Through Grantor Number | Federal CFDA or State Grant Number | Total Expenditures |
|---|--|---|-------------------------------|
| Federal: | | | |
| U.S. Department of Education: Special Education Technology and Media Services for Individuals with Disabilities | N/A | 84.327 | \$ 13,250,000 |
| Pass-through from Texas Education Agency Educational Outreach Program | 2657 | 84.027 | <u>667,060</u> |
| Total Federal Expenditures | | | <u>\$ 13,917,060</u> |
| State of Texas Awards: | | | |
| Texas Education Agency -Educational Outreach Program | N/A | 2657 | <u>\$ 667,060</u> |
| State of Florida Awards: | | | |
| Learning Through Listening | N/A | 780-95550-1Q001 | <u>\$ 950,000</u> |

The accompanying note to the schedule of expenditures of Federal, State of Texas and State of Florida awards should be read in conjunction with this schedule.

LEARNING ALLY, INC.

Note to the Schedule of Expenditures of Federal, State of Texas and State of Florida Awards For the year ended June 30, 2011

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal, State of Texas and State of Florida awards includes the federal, State of Texas and Florida grant expenditures of Learning Ally, Inc. (the "Organization") for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the State of Texas Uniform Grant Management Standards ("UGMS"), and Chapter 10.650, "Rules of the State of Florida Auditor General," and Chapter 69I, "Schedule of Expenditures of State Financial Assistance Projects," issued by the Florida Department of Financial Services. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Organization did not provide any federal, State of Texas or State of Florida funding to subrecipients during the year ended June 30, 2011.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS**

To the Board of Directors of
Learning Ally, Inc.:

We have audited the financial statements of Learning Ally, Inc. (the “Organization”) as of and for the year ended June 30, 2011, and have issued our report thereon dated March 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 express no such opinion.

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 a 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Organization’s internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 and 2011-02, that we consider to be significant deficiencies in the Organization's internal control over financial reporting

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*.

We did not audit the Organization's written responses to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the Organization in a separate letter dated March 22, 2012.

This report is intended solely for the information and use of the Organization's Board of Directors, audit committee and management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Edison, New Jersey
March 22, 2012



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE
RELATED TO MAJOR PROGRAMS (OMB CIRCULAR A-133, STATE OF TEXAS
UNIFORM GRANT MANAGEMENT STANDARDS AND SECTION 215.97, FLORIDA
STATUTES, AND CHAPTER 10.650, RULES OF THE STATE OF FLORIDA AUDITOR
GENERAL) AND ON INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Directors of
Learning Ally, Inc.:

Compliance

We have audited the compliance of Learning Ally, 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 each of its major federal programs, the State of Texas Uniform Grant Management Standards ("UGMS") that could have a direct and material effect on the Organization's major State of Texas program, and those requirements described in the Executive Office of the Governor's State Projects Compliance Supplement that could have a direct and material effect on the Organization's major State of Florida program for the year ended June 30, 2011. The Organization's major federal, State of Texas and State of Florida programs are identified in the summary of auditors' 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, State of Texas and State of Florida programs 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 established by the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; the State of Texas Uniform Grant Management Standards; and Section 215.97 "Florida Statutes," and Chapter 10.650, "Rules of the State of Florida Auditor General." Those standards, *OMB Circular A-133*, the State of Texas Uniform Grant Management Standards, and Section 215.97 "Florida Statutes," and Chapter 10.650, "Rules of the State of Florida 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 federal, State of Texas or State of Florida 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, the Organization complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal, State of Texas and State of Florida programs for the year ended June 30, 2011.

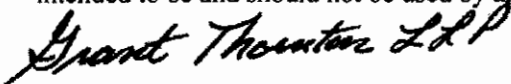
Internal Control Over Compliance

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, State of Texas and State of Florida programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal, State of Texas and State of Florida program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control over compliance. Accordingly, we express no such opinion.

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 federal, State of Texas or State of Florida program on a timely basis. A material weakness 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, State of Texas or State of Florida program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Organization's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

This report is intended solely for the information and use of the Organization's Board of Directors, audit committee and management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Edison, New Jersey
March 29, 2012

LEARNING ALLY, INC.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal, State of Texas and State of Florida Awards:

Internal control over the major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for the major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133, State of Texas Uniform Grant Management Standards or Rules of the State of Florida Auditor General? yes no

Identification of the major programs:

| Grantor/Program Title | Federal CFDA or State Grant Number |
|--|---|
| Federal: | |
| U.S. Department of Education: Special Education Technology and Media Services for Individuals with Disabilities | 84.327 |
| Pass-through from Texas Education Agency: Educational Outreach Program | 84.027 |
| State of Texas: | |
| Texas Education Agency- Educational Outreach Program | 2657 |
| State of Florida: | |
| Learning Through Listening | 780-95550-1Q001 |

The dollar threshold used to distinguish between type A and type B programs was \$417,512 for federal awards and \$300,000 for State of Texas and State of Florida awards for the year ended June 30, 2011.

Auditee qualified as low-risk auditee? yes no

LEARNING ALLY, INC.
Schedule of Findings and Questioned Costs (continued)
For the year ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2011-01 – Contributed Rent (Significant Deficiency)

Criteria:

In accordance with ASC 958-605-55-24, “Unconditional promises to give the use of long-lived assets (such as a building or other facilities) for a specified number of periods in which the donor retains legal title to the long-lived asset may be received in connection with leases or may be similar to leases but have no lease payments. For example, a Not-for-Profit Organization (“NFP”) may use facilities under a lease agreement that calls for lease payments at amounts below the fair rental value of the property. In circumstances in which an NFP receives an unconditional promise to give for a specified number of periods, the promise should be reported as revenue and as a contribution receivable for the difference between the fair rental value of the property and the stated amount of the lease payments. In other words, if a donor promises that the NFP can use a facility for 10 years, the NFP has received a multiyear promise to give and should report the fair value of that promise as contribution revenue in year 1 (i.e. the date the related lease is executed). Amounts reported as contributions shall not exceed the fair value of the long-lived asset at the time the NFP receives the unconditional promise to give.”

Condition and Context:

The Organization is receiving the use of building space and land, pursuant to executed lease agreements, at various site locations for a cost that is below fair market value. In accordance with the guidance above, the difference between the amounts that the Organization is paying to use the space and/or land and the fair market value should be recorded as contribution revenue and as a receivable. The Organization has five leases where the cost to the Organization is less than the fair value for the use of the space. Therefore, the Organization performed a calculation of the fair value for each lease and recorded a contribution and receivable for the difference between the fair market value and cost to the Organization.

Effect and Cause:

As a result of the fiscal 2011 audit, an adjustment of \$819,685 was recorded to increase contribution receivable and revenue for the value of this contributed space as of June 30, 2011.

Recommendation:

We recommend that the Organization enhance its policies and procedures over the tracking of its leases to ensure that all leases are recorded at fair market value when the respective lease is executed.

Views of Responsible Officials and Planned Corrective Action:

The Organization accepts the recommendation and has established procedures to recognize the fair market value of donated space/land upon execution of the lease.

LEARNING ALLY, INC.
Schedule of Findings and Questioned Costs (continued)
For the year ended June 30, 2011

Finding No. 2011-02 – Deferred Revenue (Significant Deficiency)

Criteria:

The Organization maintains a library database of recorded books for use by the blind, visually impaired, dyslexia or individuals with other learning disabilities. Individuals and schools purchase annual subscriptions to the database to access recorded books. Apart from allowing clients/schools to access the database once they enter into an agreement, the Organization has no further continuing involvement or responsibilities. In accordance with U.S. generally accepted accounting principles, the Organization should be recognizing its membership revenue ratably over the respective contract term.

Condition and Context:

The Organization's memberships can be entered into on any date and therefore each membership has a different service period. In prior years, the Organization recognized revenue upfront related to these arrangements, however, the Organization should be recognizing the revenue related to these memberships ratably over the respective contract period.

Effect and Cause:

As a result, an audit adjustment was recorded to increase deferred revenue and decrease fiscal 2011 membership revenue by approximately \$1,187,000 to properly account for memberships in accordance with U.S. GAAP.

Recommendation:

We recommend that the Organization establish a process to track and recognize revenue related to membership agreements ratably over the respective contract periods.

Views of Responsible Officials and Planned Corrective Action:

The Organization accepts the recommendation and has established procedures to recognize membership revenue ratably over the respective contract period.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.