# The National Federation of the Blind T/A Blind Federation of America Consolidated Financial Statements December 31, 2015

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## Independent Auditors' Report

To the Board of Directors and Officers of

The National Federation of the Blind T/A Blind Federation of America

We have audited the accompanying consolidated financial statements of The National Federation of the Blind T/A Blind Federation of America (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The National Federation of the Blind T/A Blind Federation of America as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Rosen, Sapperstein & Friedlander, LLC

March 18, 2016

## The National Federation of the Blind T/A Blind Federation of America Consolidated Statement of Financial Position December 31, 2015

### ASSETS

|  |  |
| --- | --- |
| Cash and cash equivalents | $2,846,801 |
| Prepaid expenses | 291,580 |
| Notes receivable | 102,389 |
| Other receivables | 359,130 |
| Investments | 14,274,839 |
| Other investments - life insurance | 2,271,151 |
| Property and equipment - net | 253,035 |
| Intangible assets - net | 2,246,498 |
| TOTAL ASSETS | $22,645,423 |

### LIABILITIES AND NET ASSETS

| LIABILITIES: | |
| --- | --- |
| Accounts payable and accrued expenses | $531,836 |
| Deferred revenue | 59,138 |
| Accrued annuity benefit | 28,156 |
| TOTAL LIABILITIES | 619,130 |
| NET ASSETS: | |
| Unrestricted | 19,511,524 |
| Temporarily restricted | 2,277,301 |
| Permanently restricted | 237,468 |
| TOTAL NET ASSETS | 22,026,293 |
| TOTAL LIABILITIES AND NET ASSETS | $22,645,423 |

## The National Federation of the Blind T/A Blind Federation of America Consolidated Statements of Activities For the Year Ended December 31, 2015

### Revenues, Gains and Other Support

|  | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| --- | --- | --- | --- | --- |
| Public support:  Contributions | $14,820,336 | $669,833 | $ -- | $15,490,169 |
| Public support:  Donated services | 4,327,731 | -- | -- | 4,327,731 |
| Public support:  Government grants and contract services | 1,912,295 | -- | -- | 1,912,295 |
| Public support:  Fulfillment of restrictions | 98,199 | (98,199) | -- | -- |
| Total public support | 21,158,561 | 571,634 | -- | 21,730,195 |
| Revenue:  Sales - independence products and publications | 733,932 | -- | -- | 733,932 |
| Revenue:  Investment income (loss) | (598,918) | (157,041) | -- | (755,959) |
| Revenue:  Royalties | 1,646 | -- | -- | 1,646 |
| Total revenue | 136,660 | (157,041) | -- | (20,381) |
| TOTAL REVENUES, GAINS AND OTHER SUPPORT | 21,295,221 | 414,593 | -- | 21,709,814 |

### Expenses

|  | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| --- | --- | --- | --- | --- |
| Program services:  Blindness integration | 8,347,811 | -- | -- | 8,347,811 |
| Program services:  Civil rights, advocacy and self-organization | 5,969,380 | -- | -- | 5,969,380 |
| Program services:  Nonvisual access systems | 5,177,613 | -- | -- | 5,177,613 |
| Total program services | 19,494,804 | -- | -- | 19,494,804 |
| Supporting services:  Management and general | 531,269 | -- | -- | 531,269 |
| Supporting services: Fundraising | 1,332,531 | -- | -- | 1,332,531 |
| Total supporting services | 1,863,800 | -- | -- | 1,863,800 |
| TOTAL EXPENSES | 21,358,604 | -- | -- | 21,358,604 |
| CHANGES IN NET ASSETS | (63,383) | 414,593 | -- | 351,210 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| NET ASSETS – BEGINNING OF YEAR | 19,574,907 | 1,862,708 | 237,468 | 21,675,083 |
| NET ASSETS – END OF YEAR | $19,511,524 | $2,277,301 | $237,468 | $22,026,293 |

## The National Federation of the Blind T/A Blind Federation of America Consolidated Statements of Functional Expenses For the Year Ended December 31, 2015

|  | **Program Services: Blindness Integration** | **Program Services:**  **Civil Rights, Advocacy and Self-Organization** | **Program Services: Nonvisual Access Systems** | **Program Services: Total** | **Supporting Services: Management and General** | **Supporting Services: Fundraising** | **Supporting Services:**  **Total** | **GRAND TOTAL** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Volunteer services | $1,161,742 | $1,161,742 | $580,871 | $2,904,355 | $-- | $-- | $-- | $2,904,355 |
| Salaries | 1,149,492 | 1,326,336 | 1,591,604 | 4,067,432 | 309,479 | 44,211 | 353,690 | 4,421,122 |
| Payroll taxes and related expenses | 197,951 | 227,708 | 272,344 | 698,003 | 53,585 | 7,439 | 61,024 | 759,027 |
| Total salaries and related expenses | 2,509,185 | 2,715,786 | 2,444,819 | 7,669,790 | 363,064 | 51,650 | 414,714 | 8,084,504 |
| Supplies | 76,073 | 91,908 | 307,944 | 475,925 | 9,284 | 2,716 | 12,000 | 487,925 |
| Postage and shipping | 658,119 | 12,245 | 12,697 | 683,061 | 1,086 | 647,535 | 648,621 | 1,331,682 |
| Printing and publications | 2,558,478 | 67,528 | 24,453 | 2,650,459 | 239 | 606,545 | 606,784 | 3,257,243 |
| Travel | 137,728 | 385,048 | 64,830 | 587,606 | 14,792 | 63 | 14,855 | 602,461 |
| Conferences and conventions | 59,492 | 172,304 | 6,494 | 238,290 | 2,524 | 3,255 | 5,779 | 244,069 |
| Professional fees | 443,826 | 1,926,903 | 431,043 | 2,801,772 | 79,642 | 15,940 | 95,582 | 2,897,354 |
| Telephone | 6,780 | 5,086 | 4,783 | 16,649 | 803 | 93 | 896 | 17,545 |
| Occupancy | 163,023 | 120,259 | 148,768 | 432,050 | 12,765 | 3,564 | 16,329 | 448,379 |
| Donated media | 1,423,376 | -- | -- | 1,423,376 | -- | -- | -- | 1,423,376 |
| Awards and grants | 43,250 | 237,329 | 277,500 | 558,079 | -- | -- | -- | 558,079 |
| Information technology | 202,571 | 201,664 | 1,199,899 | 1,604,134 | 7,236 | 275 | 7,511 | 1,611,645 |
| Equipment rental, maintenance and  repair | 9,765 | 8,145 | 9,220 | 27,130 | 514 | 160 | 674 | 27,804 |
| Equipment, Braille and Technology Center | -- | -- | 69,527 | 69,527 | -- | -- | -- | 69,527 |
| Royalty fees | -- | -- | 33,707 | 33,707 | 1,043 | -- | 1,043 | 34,750 |
| Data processing | 29,474 | -- | -- | 29,474 | 29,474 | -- | 29,474 | 58,948 |
| Other | 2,409 | 1,648 | 2,447 | 6,504 | 4,505 | -- | 4,505 | 11,009 |
| Total expenses before depreciation and amortization | 8,323,549 | 5,945,853 | 5,038,131 | 19,307,533 | 526,971 | 1,331,796 | 1,858,767 | 21,166,300 |
| Depreciation | 24,262 | 23,527 | 24,262 | 72,051 | 735 | 735 | 1,470 | 73,521 |
| Amortization | -- | -- | 115,220 | 115,220 | 3,563 | -- | 3,563 | 118,783 |
| TOTAL EXPENSES | $8,347,811 | $5,969,380 | $5,177,613 | $19,494,804 | $531,269 | $1,332,531 | $1,863,800 | $21,358,604 |

## The National Federation of the Blind T/A Blind Federation of America Consolidated Statement of Cash Flows for the Year Ended December 31, 2015

### CASH FLOWS FROM OPERATING ACTIVITIES

|  |  |
| --- | --- |
| Changes in net assets | $351,210 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities |  |
| Depreciation | 73,521 |
| Amortization | 118,783 |
| Unrealized loss on investments | 1,536,471 |
| Realized loss on investments | (47,122) |
| Net change in programmatic investments | (61,411) |
| Gain on sale of property and equipment | (4,252) |
| Decrease (increase) in assets: Other receivables | (200,360) |
| Decrease (increase) in assets: Prepaid expenses | 169,164 |
| Increase (decrease) in liabilities: Accounts payable and accrued expenses | 267,454 |
| Increase (decrease) in liabilities: Deferred revenue | 59,138 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,262,596 |

### CASH FLOWS FROM INVESTING ACTIVITIES

|  |  |
| --- | --- |
| Cash paid for purchase of investments | (5,789,895) |
| Cash proceeds from the sale of investments | 4,444,334 |
| Cash loaned on notes receivable | (269,546) |
| Cash received on notes receivable | 34,734 |
| Proceeds received from the sale of property and equipment | 4,252 |
| Purchase of intangible assets | (149,757) |
| NET CASH USED BY INVESTING ACTIVITIES | (1,725,878) |

|  |  |
| --- | --- |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 536,718 |
| CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR | 2,310,083 |
| CASH AND CASH EQUIVALENTS – END OF YEAR | $2,846,801 |

### SCHEDULE OF NONCASH INVESTING TRANSACTIONS

|  |  |
| --- | --- |
| Change in notes receivable | $(1,980,711) |
| Less: Intangible asset received for note receivable value | 2,215,523 |
| Change in notes receivable from cash transactions | 234,812 |
| Add: Cash received on notes receivable | 34,734 |
| Cash loaned on notes receivable | $269,546 |

## The National Federation Of The Blind T/A Blind Federation Of America Notes To Consolidated Financial Statements December 31, 2015

### NOTE 1 - NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of the Organization

The National Federation of the Blind T/A Blind Federation of America (NFB), headquartered in Baltimore, Maryland, is a nonprofit corporation established for the purpose of integrating the blind into society on the basis of equality.

KNFB Reader, LLC (KNFB) was established in 2014 as a wholly-owned subsidiary of NFB. KNFB was formed to acquire, further develop, and market software applications (apps) to be of assistance and benefit to blind persons, in further pursuit of the purpose of the NFB.

#### Consolidation

In accordance with the Consolidation topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, all wholly-owned entities are to be consolidated with the parent entity. These consolidated financial statements include the accounts of the NFB and KNFB (collectively the “Federation”). All significant intercompany balances and transactions have been eliminated in the consolidation of these financial statements.

#### Basis of Presentation

The Federation’s consolidated financial statements are prepared on the accrual method of accounting, which recognizes revenues and the related assets when earned, and expenses and the related liabilities when obligations are incurred.

The Federation follows the Presentation of Financial Statements for Not-for-Profit Entities topic of the FASB Accounting Standards Codification. This pronouncement sets standards for the financial statement presentation for not-for-profit organizations. The Federation is required to report information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Temporarily restricted net assets include scholarship funds and other funds where the donor has restricted that the income and the corpus be used for scholarships and other specific purpose. In addition, temporarily restricted net assets include grants of which all of the funds are restricted to the specific use of the agreements. The Federation has elected to treat temporarily restricted revenue spent in the same year as unrestricted revenue.

Permanently restricted net assets include scholarship funds, where the donor has restricted that only the income may be used for scholarships and that the corpus may not be invaded. The income for the current year in the restricted funds that was fully utilized for its specific purpose was transferred to unrestricted net assets as a fulfillment of restrictions. The Federation has elected to treat current year earnings on restricted funds that were fully utilized for its specific purpose in the same year as unrestricted revenue.

#### Revenue Recognition

The Federation has adopted the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification. In accordance with this standard, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support. All contributions are considered to be available for unrestricted use unless specifically restricted, either temporarily or permanently, by the donor.

Contract services relate to fee-for-service arrangements. Under these contracts, the Federation receives fees payable monthly, quarterly, or based on specific services provided. Contract services are recognized on a monthly or quarterly straight-line basis, over the course of the period specified in the contract.

Government grants include monies received from government agencies in support of specific program activities. Under these grants, the Federation receives monies at the onset of the grant or as reimbursements of program costs incurred by the Federation. Revenue is recognized when there is reasonable assurance that the Federation has complied with the requirements of the grants and receipt of funds is reasonably assured. Monies received prior to grant requirements being completed are reported as deferred revenue until such requirements have been met.

The Federation sells independence products and publications as a part of its mission to help blind individuals increase their independence and carry out daily activities. Revenue is recognized at the point of sale and is reported net of sales returns and allowances.

#### Use of Estimates

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

#### Fair Value of Financial Instruments

The carrying amounts of financial instruments reported in the statement of financial position, including cash equivalents, receivables, prepaid expenses, accounts payable and accrued expenses approximate their fair value due to their short-term maturity.

#### Cash and Cash Equivalents

For purposes of reporting cash flows, the Federation considers all highly liquid investments purchased with an original maturity of three (3) months or less to be a cash equivalent.

#### Financial Credit Risk

The Federation maintains its cash balances at several financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to insured limits. As of December 31, 2015, the Federation's cash balances were in excess of these insured limits. Management believes that the Federation is not exposed to any significant credit risk with respect to its cash balances. In addition, the Federation generally maintains investment balances in excess of the Securities Investor Protection Corporation (SIPC) limits.

The Federation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and those changes could materially affect the value reported in the financial statements.

#### Notes Receivable

Balances in notes receivable represent loans to organizations and individuals who support the Federation's mission of encouraging independence and supporting entrepreneurship among the blind. Interest is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Management evaluates the creditworthiness of each borrower prior to the issuance of these loans. Past due accounts are determined by management based on historical experience and other relevant factors. On a periodic basis, the Federation writes off uncollectible balances, after exhausting reasonable collection efforts. Based on management's historical experience, management considers all notes receivable to be fully collectible; therefore, no allowance for doubtful accounts has been reflected in the financial statements.

#### Other Receivables

Other receivables represent monies due from grantors and other third parties and amounts related to KNFB Reader sales. The Federation considers various factors as of the date of the financial statements in evaluating the credit quality of these balances, including historical collection experience and assessment of the counterparties' ability to repay their obligations. Based on these factors, management considers other receivables to be fully collectible; therefore, no allowance for doubtful accounts has been reflected in the financial statements.

#### Investments

The Federation's investment portfolio is classified as trading and is reported at its fair value, based on quoted market prices at December 31, 2015. Realized and unrealized holding gains and losses on trading securities with readily determinable market values are included in investment income in the statements of activities. Included in the investment balance at December 31, 2015 is $237,468 of permanently restricted funds. These funds are to be used for scholarships, as designated by the donor.

Alternative investments are recorded under the equity or cost methods of accounting, as appropriate, in accordance with Investments – Equity and Joint Ventures Investments topic of the FASB Accounting Standards Codification. When the Federation owns less than a 20% interest and does not exert significant influence over the investment entity, the Federation applies the cost method of accounting. Under the cost method, any dividends received are recognized as investment income and a gain or loss is only reported when the investment is sold. When the Federation has a controlling interest and can exert significant influence, the Federation applies the equity method of accounting. Under the equity method of accounting, the Federation increases its investments for cash contributions and its share of the investee’s net income and decreases its investments for cash distributions and its share of the investee’s net loss. The fair value of these investments has not been estimated because it is not practicable to estimate fair value on these investments. See Note 5 for a discussion of alternative investments and Note 6 for a discussion of fair value measurements.

#### Property and Equipment

Property and equipment is recorded at cost, net of accumulated depreciation. Major additions and betterments are charged to the asset accounts while maintenance and repairs which do not improve or extend the lives of the assets are expensed when incurred. Contributed property is recorded at fair value at the date of donation. The cost of assets sold, retired, or otherwise disposed of, and the related accumulated depreciation is eliminated from the accounts, and any resulting gains or losses are included in operations. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the respective assets.

#### Intangible Assets

In accordance with the topic Intangibles – Goodwill and Other of the FASB Accounting Standards Codification, identified intangible assets other than goodwill are amortized over their useful lives. Definite-lived intangible assets are amortized using the straight-line method over their estimated period of benefit. Management estimates the estimated useful lives range from sixteen (16) to thirty (30) years.

The Federation makes certain estimates and assumptions in order to determine the fair value of net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, cost of capital and growth rates, which could significantly impact the reported value of intangible assets. Estimating future cash flows requires significant judgment and the projections may vary from cash flows eventually realized. No indicators of impairment were identified in 2015.

#### Valuation of Long-Lived Assets

The Federation accounts for the valuation of long-lived assets under the Impairment or Disposal of Long-Lived Assets topic of the FASB Accounting Standards Codification. Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and evaluated at least annually. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount or an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for safe would be presented separately in the appropriate asset and liability sections of the statement of financial position. Management believes the value of long-lived assets exceed their carrying value as of December 31, 2015.

#### Accrued Annuity Benefit

The Federation had established a charitable gift annuity program where donors may contribute assets to the Federation and in return receive a guaranteed fixed income for life. The Federation maintains a segregated investment account to hold reserves required for gift annuity instruments. As of December 31, 2015, the balance in this reserve account amounted to $95,725 and is adequate to cover the accrued annuity benefit liability. The Federation recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability. The accrued annuity benefit liability represents monies temporarily restricted until the annuity is satisfied.

Annuity benefit liabilities are recorded for the required life annuity payments at the present value of expected future cash payments discounted using interest rates at the date of gift and actuarial assumptions. The calculation of the liability includes a donor's estimated life expectancy. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced as payments are made to the donor. This program has since been discontinued. The accrued annuity benefit liability at December 31, 2015 includes future payments for beneficiaries who entered the program prior to its termination.

#### Income Taxes

The Federation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). There were no income taxes paid on unrelated business activities for the year ended December 31, 2015.

#### Accounting for Uncertainty in Income Taxes

The Federation adopted the Accounting for Uncertainty in Income Taxes topic of the FASB Accounting Standards Codification. The standard requires the recognition and measurement of uncertain tax positions taken or expected to be taken by the Federation in the preparation of its tax returns. The Federation determines whether it is more likely-than-not that a certain tax position will be sustained upon examination by a taxing authority. If an uncertain tax position is less-likely-than-not to be sustained, an estimate of the potential effect is recognized in the financial statements and the uncertain tax position is required to be disclosed. Per the Federation's evaluation as of December 31, 2015, including all prior tax years subject to examination, it was determined that no material adjustments were required in the financial statements for tax positions less-likely-than-not to be sustained upon examination by a taxing authority. The Federation believes it is no longer subject to income tax examinations for years prior to 2012.

#### Donated Services and Media

The Federation has adopted the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification in the recognition of donated services. Donated services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services and media are recorded as both public support and program services; therefore, there is no effect on the change in net assets.

Donated services consist of volunteer services, primarily for the orientation and adjustment to blindness and blindness advocacy. Volunteer services are recorded on the basis of time spent at rates paid by other organizations for comparable services. The volunteer services revenue for the year ended December 31,

2015 amounted to approximately $2,904,000 and is included in donated services in the statements of activities, and the expenditure is included in volunteer services in the statements of functional expense.

The Federation has adopted the Revenue Recognition for Not-for-Profit Entities topic of the FASB Accounting Standards Codification in the recognition of donated media. Management employs an independent third party to assist in the valuation of the Federation's exposure to the public through various means including internet, radio, television time and printed materials in publications using the advertising value equivalency metric. The donated media revenue for the year ended December 31, 2015 amounted to approximately $1,423,000 and is included in donated services in the statements of activities, and the expenditure is included in donated media in the statements of functional expense.

The Federation operates from the National Center for the Blind which allows free usage of facilities for organizations that serve the blind.

#### Functional Allocation of Expenses

The Federation reports its expenses on a functional basis in the statement of activities. These functions consist of program and supporting service costs. Costs have been allocated among the program and supporting service activities based on management estimates using methods such as weighted-average distributions and specific identification.

#### Subsequent Events

Events that occurred subsequent to December 31, 2015 have been evaluated by the Federation's management for potential recognition or disclosure in the financial statements through the date of the independent auditor's report, which is the date the financial statements were available to be issued. The Federation did not have any material recognizable subsequent events during this period.

### NOTE 2 - NOTES RECEIVABLE

Notes receivable at December 31, 2015 consist of the following:

|  |  |
| --- | --- |
| Business Loans Low interest loan program for business or job related purposes. The notes bear interest ranging from three percent (3%) to six percent (6%) per year and are secured by various business equipment and real property. The loans mature at various dates through July 2020. | $30,604 |
| TriPlay, Inc. Unsecured note receivable due from TriPlay Inc., an unrelated third party. The note bears interest at .43% and matures on September 10, 2016. | 71,785 |
| Total Notes Receivable | $102,389 |

### NOTE 3 - OTHER RECEIVABLES

Other receivables at December 31, 2015 consist of the following:

|  |  |
| --- | --- |
| Contracts receivable | $266,804 |
| Grants receivable | 56,736 |
| Receivable related to KNFB Reader sales | 35,590 |
| Total Other Receivables | $359,130 |

### NOTE 4 – INTANGIBLE ASSETS

During 2015, the Federation’s senior secured notes receivable from Media Arc, Inc. (Media Arc) were exchanged for the assignment of the rights of the KNFB hand held reading technology, as part of the dissolution and eventual sale of Media Arc. As a result of this transaction, the Federation acquired several intangible assets. The Federation’s intangible assets at December 31, 2015 consist of the following:

|  |  |
| --- | --- |
| KNFB Reader App | $2,072,262 |
| Patents | 195,351 |
| Other intangibles | 97,668 |
|  | 2,365,281 |
| Less: Accumulated amortization | (118,783) |
| Intangible assets – net | $2,246,498 |

Amortization expense on intangible assets for the year ended December 31, 2015 amounted to $118,783. Estimated annual amortization expense for each of the ensuing years through December 31, 2020 amounts to $142,540.

### NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2015 consists of the following:

|  |  |
| --- | --- |
| Office furniture and equipment | $1,588,718 |
| Computer equipment | 530,371 |
| Total | 2,119,089 |
| Less: Accumulated depreciation | (1,866,054) |
| Property and equipment - net | $253,035 |

Depreciation expense for the year ended December 31, 2015 amounted to $73,521.

### NOTE 6 - ALTERNATIVE INVESTMENTS

The Federation makes program-related investments to further its purpose of integrating the blind into society on the basis of equality. Such investments are made primarily to accomplish the Federation's program purpose rather than to produce income. As a result, changes in investments as a result of the investee's income or loss are reported as program costs in the statement of activities.

The Federation has invested $125,000 in E.A.S.Y., LLC (EASY), to develop and market products to enhance the technologies for freehand tactile graphics. The Federation considers its investment in EASY to be a program-related investment made for the purpose of insuring that the blind have tools to produce, edit and communicate using freehand tactile drawings. The Federation has a twenty percent (20%) interest and has the ability to exert significant influence. The investment is accounted for under the equity method of accounting.

The Federation has invested $260,000 in Transforming Braille Group, LLC (TBG), to support and encourage the development of lower cost Braille devices, tools, and equipment. The Federation considers its investment in TBG to be a program-related investment made for the purpose of insuring that the blind have the ability to obtain Braille instruments. The Federation has a twenty-one percent (21%) interest and has the ability to exert significant influence. The investment is accounted for under the equity method of accounting.

The Federation's investments in joint ventures were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | EASY | TBG | Totals |
| Balance at December 31, 2014 | $87,577 | $41,481 | $129,058 |
| Capital contributions | -- | 172,500 | 172,500 |
| Net income (loss) | 2,914 | (114,003) | (111,089) |
| Balance at December 31, 2015 | $90,491 | $99,978 | $190,469 |

The following is a summary of the Federation's join ventures' condensed financial information as of and for the year ended December 31, 2015:

|  | EASY | TBG |
| --- | --- | --- |
| Assets | $35,995 | $408,386 |
| Liabilities | $94,557 | $-- |
| Equity | (58,562) | 408,386 |
| Total liabilities and equity | $35,995 | $408,386 |
| Revenue | $93,881 | $44 |
| Expenses | (79,311) | (549,668) |
| Net income (loss) | $14,570 | $(549,624) |

### NOTE 7 - FAIR VALUE MEASUREMENTS

The Federation accounts for the fair value of its investments under the Fair Value Measurement and Disclosure topic of the FASB Accounting Standards Codification, which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three (3) levels of the fair value hierarchy under this guidance are described as follows:

#### Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Federation has the ability to access.

#### Level 2

Inputs to the valuation methodology include:

* quoted prices for similar assets or liabilities in active markets;
* quoted prices for identical or similar assets or liabilities in inactive markets;
* inputs other than quoted prices that are observable for the asset or liability; and
* inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

#### Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

*Accrued annuity benefit:* Valued at the present value of expected future cash payments discounted using the interest rates at the time of the gift and actuarial assumptions.

*Alternative investments:* Valued using the equity method of accounting.

*Mutual funds:* Valued at quoted prices for identical assets in active markets.

*Corporate bonds and government securities:* Valued at quoted prices for similar assets in active markets.

*Investments in life insurance:* Valued at accumulated value, net of surrender charges.

*Money market funds:* Valued at quoted prices for similar assets in active markets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Federation's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There have been no changes in the methodologies used at December 31, 2015. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements.

The following table sets forth by level, within the fair value hierarchy, the Federation's assets and liabilities at fair value at December 31, 2015:

| **Payor Class** | **Level 1** | **Level 2** | **Level 3** | **Fair Value** |
| --- | --- | --- | --- | --- |
| Assets: | | | | |
| Corporate bonds | $-- | $920,786 | $-- | $920,786 |
| Government securities | -- | 186,543 | -- | 186,543 |
| Money market funds | -- | 747,312 | -- | 747,312 |
| Mutual funds | 12,219,749 | -- | -- | 12,219,749 |
| Alternative investments | -- | -- | 200,449 | 200,449 |
| Investments subtotal | 12,219,749 | 1,854,641 | 200,449 | 14,274,839 |
| Other investments - life insurance | -- | -- | 2,271,151 | 2,271,151 |
| Total Assets at Fair Value | $12,219,749 | $1,854,641 | $2,471,600 | $16,545,990 |
| Liabilities: | | | | |
| Accrued annuity benefits | $-- | $-- | $28,156 | $28,156 |

The following table sets forth a summary of changes in the fair value of the Federation's level 3 assets and liabilities for the year ended December 31, 2015:

|  | **Assets** | **Liabilities** |
| --- | --- | --- |
| Balance - beginning of year | $2,193,188 | $28,156 |
| Increase in cash surrender value | 217,001 | -- |
| Contributions to programmatic investments | 172,500 | -- |
| Losses on investments | (111,089) | -- |
| Balance - end of year | $2,471,600 | $28,156 |

The Federation's return on investments for the year ended December 31, 2015 consisted of the following components:

|  | **Unrestricted** | **Temporarily Restricted** | **Total** |
| --- | --- | --- | --- |
| Interest and dividends | $633,000 | $96,138 | $729,138 |
| Gains (losses) on investments: | | | |
| Net realized gains (losses) | 72,422 | (21,048) | 51,374 |
| Net change in unrealized gains | (1,061,652) | (232,131) | (1,293,783) |
| Life insurance - net of premiums | (242,688) | -- | (242,688) |
| Net losses on investments | (1,231,918) | (253,179) | (1,485,097) |
| Total return on investments | $(598,918) | $(157,041) | $(755,959) |

Expenses relating to investment revenue, including custodial fees and investment advisory fees, amounted to $122,979 and have been netted against investment income in the accompanying statements of activities.

### NOTE 8 - ALLOCATION OF JOINT COSTS

The Federation incurred joint costs of $2,393,960 for informational messages and activities that included fundraising appeals. Of those costs, $1,220,920 was allocated to fundraising expense and $1,173,040 was allocated to blindness integration. Management based these allocations on an analysis of the content of the messages, reasons for distributing the messages and the audience to whom the messages were distributed.