

THE CENTER FOR LITERACY, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

**THE CENTER FOR LITERACY, INC.
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YEAR ENDED JUNE 30, 2010**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Center for Literacy, Inc.
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of The Center for Literacy, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated October 7, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 The Center for Literacy, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.


LarsonAllen LLP

Blue Bell, Pennsylvania
October 21, 2010

THE CENTER FOR LITERACY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 491,010	\$ 548,175
Contracts and Accounts Receivable	592,159	346,385
Other Receivables, Net of Allowances	125	17,093
Prepaid Expenses	7,361	7,884
Total Current Assets	1,090,655	919,537
PROPERTY AND EQUIPMENT	268,399	283,982
OTHER ASSETS		
Security Deposit	7,653	7,653
Mortgage Modification Fees, Net of Accumulated Amortization of \$2,097 in 2010 and \$1,782 in 2009.	1,048	1,363
Total Other Assets	8,701	9,016
Total Assets	\$ 1,367,755	\$ 1,212,535
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Long-Term Debt, Current Maturities	\$ 13,178	\$ 12,126
Accounts Payable and Other Accrued Expenses	86,161	44,823
Accrued Salaries	201,876	202,049
Deferred Revenue	-	16,000
Total Current Liabilities	301,215	274,998
LONG-TERM DEBT, NET OF CURRENT MATURITIES	211,325	222,443
Total Liabilities	512,540	497,441
NET ASSETS		
Unrestricted	681,107	608,427
Temporarily Restricted	174,108	106,667
Total Net Assets	855,215	715,094
Total Liabilities and Net Assets	\$ 1,367,755	\$ 1,212,535

See accompanying Notes to Financial Statements.

THE CENTER FOR LITERACY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

	2010			2009
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Government Contracts	\$ 1,473,693	\$ -	\$ 1,473,693	\$ 1,914,186
Corporate/Foundation Contributions	175,100	429,357	604,457	320,520
Individual Contributions	85,456	-	85,456	83,426
In-Kind Contributions	313,699	-	313,699	389,879
Fundraising Event	65,478	7,500	72,978	106,055
Investment Income	2,077	-	2,077	8,198
Fee for Service	1,712,234	-	1,712,234	1,370,230
Other Income	4,654	-	4,654	5,274
Subtotal	<u>3,832,391</u>	<u>436,857</u>	<u>4,269,248</u>	<u>4,197,768</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>369,416</u>	<u>(369,416)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	4,201,807	67,441	4,269,248	4,197,768
EXPENSES				
Program Services	3,714,627	-	3,714,627	3,996,629
General and Administrative Expenses	341,337	-	341,337	399,213
Fundraising	30,500	-	30,500	23,442
Total Expenses	<u>4,086,464</u>	<u>-</u>	<u>4,086,464</u>	<u>4,419,284</u>
CHANGE IN NET ASSETS BEFORE DEPRECIATION AND AMORTIZATION	115,343	67,441	182,784	(221,516)
DEPRECIATION AND AMORTIZATION	<u>42,663</u>	<u>-</u>	<u>42,663</u>	<u>38,170</u>
CHANGE IN NET ASSETS	72,680	67,441	140,121	(259,686)
Net Assets - Beginning of Year	<u>608,427</u>	<u>106,667</u>	<u>715,094</u>	<u>974,780</u>
NET ASSETS - END OF YEAR	<u>\$ 681,107</u>	<u>\$ 174,108</u>	<u>\$ 855,215</u>	<u>\$ 715,094</u>

See accompanying Notes to Financial Statements.

THE CENTER FOR LITERACY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

2009

	Student Training	Tutor Training	Special Projects	Total Program Services	General and Administrative Expenses	Fundraising	Total Expenses	Total Expenses
Salaries	\$ 1,893,910	\$ 149,519	\$ 199,359	\$ 2,242,788	\$ 224,282	\$ 24,920	\$ 2,491,990	\$ 2,606,612
Payroll Taxes	183,628	14,497	19,329	217,454	21,744	2,417	241,615	215,554
Benefits	202,441	15,982	21,310	239,733	23,973	2,664	266,370	273,684
Bad Debts	-	-	-	-	-	-	-	12,900
Bank Charges	-	-	-	-	5,864	-	5,864	3,481
Building Maintenance	28,952	2,286	3,048	34,286	3,809	-	38,095	27,909
Clerical Services	5,538	353	-	5,891	-	-	5,891	7,791
Conferences, Conventions and Meetings	15,228	972	-	16,200	-	-	16,200	5,118
Consulting Services	70,646	5,046	-	75,692	8,410	-	84,102	211,352
Contracted Program Services	213,103	-	-	213,103	-	-	213,103	159,438
Equipment Rental, Repairs and Maintenance	57,429	4,534	6,045	68,008	7,556	-	75,564	40,288
Insurance	10,775	851	1,134	12,760	1,418	-	14,178	13,470
Volunteer - Tutor Services	170,391	-	-	170,391	-	-	170,391	247,508
Instructional Supplies	39,130	2,060	-	41,190	-	-	41,190	66,285
Interest	-	-	-	-	15,181	-	15,181	15,817
License, Fees and Dues	-	-	-	-	1,904	-	1,904	3,054
Office Expenses	26,209	2,069	2,759	31,037	3,449	-	34,486	32,161
Office Supplies	19,804	1,563	2,085	23,452	2,345	261	26,058	38,474
Postage	3,673	490	-	4,163	685	49	4,897	5,272
Printing	14,388	1,136	1,514	17,038	1,704	189	18,931	51,008
Professional Fees	4,988	-	-	4,988	5,404	-	10,392	58,837
Rent	227,689	-	-	227,689	-	-	227,689	231,434
Special Events	-	-	-	-	6,965	-	6,965	13,814
Technology Upgrade and Equipment	6,002	474	632	7,108	789	-	7,897	3,654
Telephone	27,792	2,194	2,925	32,911	3,657	-	36,568	32,631
Travel	6,680	343	685	7,708	855	-	8,563	20,533
Utilities	17,904	1,343	1,790	21,037	1,343	-	22,380	21,206
Total	3,246,300	205,712	262,615	3,714,627	341,337	30,500	4,086,464	4,419,285
Depreciation and Amortization	32,424	2,560	3,413	38,397	4,266	-	42,663	38,170
Total Expense	\$ 3,278,724	\$ 208,272	\$ 266,028	\$ 3,753,024	\$ 345,603	\$ 30,500	\$ 4,129,127	\$ 4,457,455

See accompanying Notes to Financial Statements.

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THE CENTER FOR LITERACY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 140,121	\$ (259,686)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	42,663	38,170
Donated Equipment	-	(6,500)
(Increase) Decrease in:		
Contracts and Accounts Receivable	(245,774)	139,796
Other Receivables	16,968	(4,193)
Prepaid Expenses	523	618
Increase (Decrease) in:		
Accounts Payable and Other Accrued Expenses	41,338	(36,342)
Accrued Salaries	(173)	116,254
Deferred Revenue	(16,000)	16,000
Net Cash Provided (Used) by Operating Activities	<u>(20,334)</u>	<u>4,117</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(26,765)	(27,713)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	<u>(10,066)</u>	<u>(9,431)</u>
NET DECREASE IN CASH	(57,165)	(33,027)
Cash and Cash Equivalents - Beginning of Year	<u>548,175</u>	<u>581,202</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 491,010</u>	<u>\$ 548,175</u>
SUPPLEMENTAL CASH DISCLOSURE		
Interest Paid	<u>\$ 15,181</u>	<u>\$ 15,817</u>

See accompanying Notes to Financial Statements.

THE CENTER FOR LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Center for Literacy (CFL) is the nation's largest community-based nonprofit literacy provider. Its mission is to provide a range of literacy services, including reading, writing, math, life and work skills, to help a diverse population of learners meet their needs and achieve their personal and employment-related goals. Since 1968, CFL has provided literacy services to adults, youth, and families in Philadelphia and Delaware Counties, and is considered a nationally recognized leader in the field by practitioners and funders. CFL offers technical assistance and professional development to other organizations, and direct services in adult basic and literacy education, family literacy, in-school and out-of-school youth programs, workforce initiatives, GED programs, an adult diploma program, and other initiatives through its network of 69 learning centers. CFL also offers educational products including curricula, handbooks, and a toolkit for working with out-of-school youth. CFL receives funding from government contracts and donations from corporate, foundations and individual sources.

In addition to the dedication of dozens of fulltime teachers, each year CFL is privileged to receive the support of hundreds of volunteer tutors who work in small groups or one-on-one with individual students. In total, CFL serves more than 3,200 students every year.

Financial Statement Presentation

The financial statements of the Organization are reported on the accrual basis of accounting. The Organization's information regarding its financial position and activities according to the following three classes of net assets:

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that are to 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 general or specific purposes and prohibits the use of principal. At June 30, 2010, the Organization did not have any permanently restricted net assets.

Temporarily Restricted Net Assets

Net assets whose use has been limited by donors to a specific time period or purpose. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At June 30, 2010, the Organization did have temporarily restricted net assets.

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

CFL considers all government awards to be exchange transactions in which each party receives and sacrifices commensurate value. Accordingly, government awards do not affect temporarily restricted or permanently restricted net assets, and funds received in advance are deferred revenue, and funds disbursed and not reimbursed represent receivables.

THE CENTER FOR LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

CFL is a non-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, there is no provision for income taxes. CFL income tax returns are subject to review and examination by federal, state and local authorities. CFL is not aware of any activities that would jeopardize its tax-exempt status or any activities that are subject to tax on unrelated business income taxes.

Effective July 1, 2009 the Organization adopted the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The adoption of this standard had no impact on the CFL's financial statements. CFL's tax returns for the years 2007, 2008, and 2009 are open for federal and state tax examinations.

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.

Cash and Cash Equivalents

For purposes of reporting cash flows, CFL considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents.

Donated Securities

Donated marketable securities are recorded as contributions at their estimated fair values at the time of donation. CFL's policy is to sell the securities as soon as possible after receipt.

Contracts and Accounts Receivable

CFL provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At June 30, 2010, an allowance was not warranted.

Property and Equipment and Depreciation

Building, office equipment, computer hardware and software, building improvements are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives of assets range between 3 years to 39 years. CFL capitalizes all expenditures for property and equipment in excess of \$5,000.

Maintenance and repairs are expensed as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulation are removed from the accounts and any gain or loss is included in income.

THE CENTER FOR LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions

CFL records various types of in-kind support including contributed professional services, volunteer tutor services, contributed space and donated equipment. Contributed professional services and volunteer tutor services are recognized if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed space is recognized by CFL at fair value. Donated equipment is recognized at the estimated fair value at the date of receipt. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses, except for donated equipment, which is capitalized.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Comparative Data

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

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 21, 2010, the date the financial statements were available to be issued.

NOTE 2 CONTRACTS AND ACCOUNTS RECEIVABLE

CFL's contracts and accounts receivable consisted of the following at June 30, 2010:

Fees for Services and Other	\$ 586,523
Government Contracts	5,636
Total Contracts and Accounts Receivable	<u><u>\$ 592,159</u></u>

**THE CENTER FOR LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2010:

Building and Building Improvements	\$ 404,474
Furniture, Equipment and Other	291,258
Total	<u>695,732</u>
Less: Accumulated Depreciation	427,333
Total Property and Equipment	<u>\$ 268,399</u>

Depreciation expense was \$42,348 for the year ended June 30, 2010.

NOTE 4 LINE OF CREDIT

CFL has obtained a line of credit in the amount of \$400,000. Interest accrues at prime plus 0.5% on the unpaid principal balance. The interest rate at June 30, 2010 was 3.75%. The line of credit is secured by all of the assets of CFL and extends through April, 2011. There were no amounts outstanding at June 30, 2010.

NOTE 5 MORTGAGE PAYABLE

On August 3, 1990, the Organization purchased a building located at 636 South 48th Street, Philadelphia, Pennsylvania. The building was financed by a mortgage of \$262,000. Terms of the mortgage called for principal and interest at 10% per annum, from October 1, 1990 through September 1, 2020. During the fiscal year ended 2004, the building was refinanced for \$280,000. Terms of the security agreement call for payments of \$2,104 including interest at 6.5% per annum, from December 1, 2003 through November 1, 2013 and a balloon payment in November 2013.

Long-term debt matures as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 13,178
2012	11,860
2013	12,655
2014	<u>186,810</u>
Total	224,503
Less: Current Maturities	<u>13,178</u>
Total Long-term Debt, Net of Current Maturities	<u>\$ 211,325</u>

**THE CENTER FOR LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions for the year ended June 30, 2010 were:

Wachovia Foundation - Support Literacy and Career Development for Ex-Offenders	\$ 25,000
Philadelphia Foundation - General Operations - Time Restricted	35,000
Connelly Foundation - English Language Classes	16,667
ACE INA Foundation - Support Adult Diploma Program	20,000
PNC Foundation - Support Parental Literacy Classes	10,000
Comcast Foundation - Support GED and Youth Programs	5,000
Claniel Foundation - LEAD Program Development	5,000
Verizon Foundation - Reading Writers	7,500
William Penn Foundation - Expansion of Literacy Intensive Interventions	50,000
William Penn Foundation - Integrated Literacy Model - Pilot	56,498
William Penn Foundation - Integrated Literacy Model (Year 2)	138,751
Total	<u>\$ 369,416</u>

NOTE 7 NET ASSETS

Temporarily restricted net assets at June 30, 2010 are available for the following purposes:

Wachovia Foundation - Support Literacy and Career Development for Ex-Offenders	\$ 25,000
PNC Foundation - Support Parental Literacy Classes	5,000
ENDO Pharmaceuticals - Support Life Experience Academic Diploma "L.E.A.D."	10,000
Connelly Foundation - English Language Classes	5,000
Philadelphia Foundation - General Operations 3/2/10-2/26/11	30,000
William Penn Foundation - Integrated Literacy Model (Year 2)	99,108
Total	<u>\$ 174,108</u>

NOTE 8 IN-KIND CONTRIBUTIONS

In-kind contributions for the year ended June 30, 2010 consisted of the following:

Contributed Space	143,308
Total	<u>\$ 313,699</u>

THE CENTER FOR LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 9 OPERATING LEASES

The Organization has various operating leases including month-to-month and terms through 2013 for equipment, office space, and classrooms. Rent expense under the leases for the year ended June 30, 2010 was approximately \$136,000. Future minimum lease payments under the operating leases that have remaining terms in excess of one year as of June 30, 2010 are as follows

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 122,301
2012	49,387
2013	34,094
Total	<u>\$ 205,782</u>

NOTE 10 EMPLOYEE 403B PLAN

The Organization has a 403B plan for all eligible employees. The Organization, at its discretion, may make a contribution to the plan each year.

The Organization did not contribute to the plan for the year ended June 30, 2010.

NOTE 11 CONCENTRATION OF CREDIT RISK

The Center for Literacy, Inc. maintains cash balances at a financial institution. The Federal Deposit Insurance Corporation insures these balances up to a limit of \$250,000. Occasionally, these balances may exceed this federally-insured limit.

NOTE 12 CONCENTRATION OF REVENUE

Approximately 35% of the Organization's funding was received from the Pennsylvania Department of Education for the year ended June 30, 2010.

NOTE 13 CONTRACTUAL ADJUSTMENTS

The contracts under which the Organization conducts its programs contain provisions defining costs, which are allowable and reimbursable with the program. Programs billings are subject to audit by various governmental funding sources. Audits of these billings may result in adjustments for disallowances. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined to date.