

**THE CENTER FOR LITERACY, INC.**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2008**

**THE CENTER FOR LITERACY, INC.  
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# LarsonAllen<sup>®</sup> LLP

CPAs, Consultants & Advisors  
www.larsonallen.com

## 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, 2008, 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 2007 financial statements and, in our report dated November 14, 2007, 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, 2008, 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*  
LarsonAllen LLP

Blue Bell, Pennsylvania  
December 11, 2008

**THE CENTER FOR LITERACY, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2008**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)**

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 581,202	\$ 393,782
Contracts and Accounts Receivable	486,181	277,718
Other Receivables	12,900	12,900
Prepaid Expenses	8,502	10,202
Total Current Assets	<u>1,088,785</u>	<u>694,602</u>
<b>PROPERTY AND EQUIPMENT</b>	287,627	306,767
<b>OTHER ASSETS</b>		
Security Deposit	7,653	7,653
Mortgage Modification Fees, Net of Accumulated Amortization of \$1,470 in 2008 and \$1,155 in 2007.	1,675	1,990
Total Other Assets	<u>9,328</u>	<u>9,643</u>
Total Assets	<u><u>\$ 1,385,740</u></u>	<u><u>\$ 1,011,012</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Long-Term Debt, Current Maturities	\$ 9,764	\$ 9,151
Accounts Payable and Other Accrued Expenses	81,165	49,223
Accrued Salaries	85,795	121,115
Total Current Liabilities	<u>176,724</u>	<u>179,489</u>
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES</b>	<u>234,236</u>	<u>243,638</u>
Total Liabilities	410,960	423,127
<b>NET ASSETS</b>		
Unrestricted	578,321	393,598
Temporarily Restricted	396,459	194,287
Total Net Assets	<u>974,780</u>	<u>587,885</u>
Total Liabilities and Net Assets	<u><u>\$ 1,385,740</u></u>	<u><u>\$ 1,011,012</u></u>

See accompanying Notes to Financial Statements.

**THE CENTER FOR LITERACY, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2008**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)**

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Total
<b>SUPPORT AND REVENUE</b>				
Government Contracts	\$ 2,199,558	\$ -	\$ 2,199,558	\$ 2,304,269
Corporate/Foundation Contributions	49,095	409,454	458,549	234,459
Individual Contributions	46,813	-	46,813	41,616
In-Kind Contributions	396,243	-	396,243	343,808
Fundraising Event	31,839	-	31,839	47,453
Investment Income	8,254	-	8,254	538
Fee for Service	968,273	-	968,273	640,030
Other Income	27,710	-	27,710	1,470
Subtotal	<u>3,727,785</u>	<u>409,454</u>	<u>4,137,239</u>	<u>3,613,643</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>207,282</u>	<u>(207,282)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	3,935,067	202,172	4,137,239	3,613,643
<b>EXPENSES</b>				
Program Services	3,385,879	-	3,385,879	3,270,980
General and Administrative Expenses	324,137	-	324,137	299,734
Total Expenses	<u>3,710,016</u>	<u>-</u>	<u>3,710,016</u>	<u>3,570,714</u>
<b>CHANGE IN NET ASSETS BEFORE DEPRECIATION AND AMORTIZATION</b>	225,051	202,172	427,223	42,929
<b>DEPRECIATION AND AMORTIZATION</b>	<u>40,328</u>	<u>-</u>	<u>40,328</u>	<u>41,302</u>
<b>CHANGE IN NET ASSETS</b>	184,723	202,172	386,895	1,627
Net Assets - Beginning of Year	<u>393,598</u>	<u>194,287</u>	<u>587,885</u>	<u>586,258</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 578,321</u>	<u>\$ 396,459</u>	<u>\$ 974,780</u>	<u>\$ 587,885</u>

See accompanying Notes to Financial Statements.

**THE CENTER FOR LITERACY, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)**

	2008				2007			
	Student Training	Tutor Training	Special Projects	Total Program Services	General and Administrative Expenses	Total Expenses	Total Expenses	Total Expenses
Salaries	\$ 1,689,762	\$ 128,336	\$ 106,947	\$ 1,925,045	\$ 213,894	\$ 2,138,939	\$ 2,129,101	\$ 2,129,101
Payroll Taxes	176,177	13,381	11,151	200,709	22,301	223,010	223,216	223,216
Benefits	185,522	14,090	11,742	211,354	23,484	234,838	209,429	209,429
Bank Charges	-	-	-	-	1,623	1,623	2,656	2,656
Building Maintenance	2,891	220	183	3,294	366	3,660	13,137	13,137
Clerical Services	20,873	1,099	-	21,972	-	21,972	5,405	5,405
Conferences, Conventions and Meetings	9,263	488	-	9,751	-	9,751	6,452	6,452
Consulting Services	53,325	3,137	-	56,462	6,274	62,736	69,764	69,764
Contracted Program Services	191,250	-	-	191,250	-	191,250	170,996	170,996
Equipment Rental, Repairs and Maintenance	31,015	2,356	1,963	35,334	3,926	39,260	17,601	17,601
Insurance	10,311	783	653	11,747	1,305	13,052	12,443	12,443
Volunteer - Tutor Services	234,243	-	-	234,243	-	234,243	189,714	189,714
Instructional Supplies	38,076	2,004	-	40,080	-	40,080	45,314	45,314
Interest	-	-	-	-	16,095	16,095	17,821	17,821
License, Fees and Dues	1,828	139	116	2,083	231	2,314	2,026	2,026
Office Expenses	8,726	663	552	9,941	1,105	11,046	35,750	35,750
Office Supplies	18,060	1,372	1,143	20,575	2,286	22,861	26,175	26,175
Postage	10,198	1,360	-	11,558	2,040	13,598	9,921	9,921
Printing	8,419	639	533	9,591	1,066	10,657	13,448	13,448
Professional Fees	16,173	-	-	16,173	17,521	33,694	19,975	19,975
Rent	279,123	-	-	279,123	-	279,123	262,077	262,077
Special Events	4,308	538	-	4,846	538	5,384	6,180	6,180
Technology Upgrade and Equipment	15,922	1,209	1,008	18,139	2,015	20,154	6,933	6,933
Telephone	27,058	2,055	1,713	30,826	3,425	34,251	31,144	31,144
Travel	17,538	1,332	1,110	19,980	2,220	22,200	23,446	23,446
Utilities	19,138	1,454	1,211	21,803	2,422	24,225	20,590	20,590
<b>Total</b>	<b>3,069,199</b>	<b>176,655</b>	<b>140,025</b>	<b>3,385,879</b>	<b>324,137</b>	<b>3,710,016</b>	<b>3,570,714</b>	<b>3,570,714</b>
Depreciation and Amortization	32,464	2,621	1,210	36,295	4,033	40,328	41,302	41,302
<b>Total Expense</b>	<b>\$ 3,101,663</b>	<b>\$ 179,276</b>	<b>\$ 141,235</b>	<b>\$ 3,422,174</b>	<b>\$ 328,170</b>	<b>\$ 3,750,344</b>	<b>\$ 3,612,016</b>	<b>\$ 3,612,016</b>

See accompanying Notes to Financial Statements.

**THE CENTER FOR LITERACY, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 386,895	\$ 1,627
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	40,328	41,302
Loss on Disposal of Equipment	902	-
(Increase) Decrease in:		
Contracts and Accounts Receivable	(208,463)	231,350
Salary Advance	-	5,376
Other Receivables	-	(12,900)
Prepaid Expenses	2,015	(344)
Increase (Decrease) in:		
Accounts Payable and Other Accrued Expenses	31,942	(31,455)
Accrued Salaries	(35,320)	(73,111)
Net Cash Provided by Operating Activities	218,299	161,845
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(22,091)	(28,172)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Long-Term Debt	(8,789)	(7,451)
<b>NET INCREASE IN CASH</b>	187,419	126,222
Cash and Cash Equivalents - Beginning of Year	393,782	267,560
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 581,201	\$ 393,782
<b>SUPPLEMENTAL CASH DISCLOSURE</b>		
Interest Paid	\$ 16,095	\$ 17,821

See accompanying Notes to Financial Statements.

**THE CENTER FOR LITERACY, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**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 more than 100 learning centers. CFL also offers educational products including curricula, handbooks, and a toolkit for working with out-of-school youth.

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 4200 students every year.

**Basis of Presentation**

CFL reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Permanently restricted net assets include amounts restricted in perpetuity by the donor. CFL had no permanently restricted net assets at June 30, 2008. Temporarily restricted net assets include monies donated and specifically restricted for certain purposes. When such restrictions are satisfied, income is then released as unrestricted. All other activities of the Organization are considered unrestricted.

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.

**Income Taxes**

CFL qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for taxes has been provided. The Organization has been classified as a publicly supported organization as described in Section 509(a)(1) of the Internal Revenue Code. Accordingly, donors are entitled to the maximum contribution deduction allowed by law.

**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.



**THE CENTER FOR LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

Cash includes cash on hand and cash in checking and money market accounts.

**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, 2008, an allowance for doubtful accounts 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 \$1,500.

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.

**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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with CFL's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**THE CENTER FOR LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Reclassifications**

The prior year financial statements have been reclassified in order to conform with the current year presentation.

**NOTE 2 CONTRACTS AND ACCOUNTS RECEIVABLE**

CFL's contracts and accounts receivable consisted of the following at June 30, 2008:

Government Contracts	\$ 269,575
Fees for Services and Other	216,606
Total Accounts Receivable	<u>\$ 486,181</u>

**NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30, 2008:

Building and Building Improvements	\$ 404,474
Furniture, Equipment and Other	229,234
Total	<u>633,708</u>
Less: Accumulated Depreciation	346,081
Total Property and Equipment	<u>\$ 287,627</u>

Depreciation expense was \$40,328 for the year ended June 30, 2008.

**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, 2008 was 5.5%. The line of credit is secured by all of the assets of CFL and extends through April, 2009. There were no amounts outstanding at June 30, 2008.

**NOTE 5 MORTGAGE PAYABLE**

On August 3, 1990, the Organization purchased a building located at 636 South 48<sup>th</sup> 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.

**THE CENTER FOR LITERACY, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 5 MORTGAGE PAYABLE (CONTINUED)**

Long-term debt matures as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 9,764
2010	10,417
2011	11,116
2012	11,860
2013	12,655
Thereafter	188,188
Total	<u>244,000</u>
Less: Current Maturities	9,764
Total Long-term Debt, Net of Current Maturities	<u>\$ 234,236</u>

**NOTE 6 NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from restriction at June 30, 2008 were:

Annenberg Foundation Grant - Urban Youth Center	\$ 60,091
Philadelphia Foundation	31,245
Solomon and Sylvia Bronstein Foundation - FYE 2008 Reading Writers Fund Raiser	25,000
United Way of SE PA - Video	8,000
William Penn Foundation - Expansion of Literacy Intensive Interventions	21,659
William Penn Foundation - Literacy Hubs	61,287
Total	<u>\$ 207,282</u>

**NOTE 7 NET ASSETS**

Temporarily restricted net assets at June 30, 2008 are available for the following purposes:

Annenberg Foundation Grant - Urban Youth Center	\$ 39,909
Philadelphia Foundation	18,755
William Penn Foundation - Expansion of Literacy Intensive Interventions	337,795
Total	<u>\$ 396,459</u>

**NOTE 8 IN-KIND CONTRIBUTIONS**

In-kind contributions for the year ended June 30, 2008 consisted of the following:

Volunteer Tutor Services	\$ 234,243
Contributed Space	162,000
Total	<u>\$ 396,243</u>

**THE CENTER FOR LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 9 OPERATING LEASES**

The Organization has various operating and month-to-month leases for equipment, office space, and classrooms. Rent expense under the leases for the year ended June 30, 2008 was approximately \$88,000. Future minimum lease payments under the operating leases that have remaining terms in excess of one year as of June 30, 2008 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 81,947
2010	85,091
2011	85,763
2012	14,338
Total	<u>\$ 267,139</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, 2008.

**NOTE 11 CONCENTRATION OF CREDIT RISK**

The Center for Literacy, Inc. maintains several bank accounts at two banks. At times, cash in bank may exceed FDIC insurable limits.

**NOTE 12 CONCENTRATION OF REVENUE**

Approximately 46% of the Organization's funding was received from the Pennsylvania Department of Education for the year ended June 30, 2008.

**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.

**NOTE 14 FUND-RAISING ACTIVITIES**

The total amount of fund-raising expenses incurred by the Organization for the year ended June 30, 2008 was \$59,993.