

# **LITERACY PARTNERS, INC.**

***FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

**JUNE 30, 2009 AND 2008**

# LITERACY PARTNERS, INC.

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*TAIT, WELLER & BAKER LLP*  
*Certified Public Accountants*

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**To the Board of Directors of  
Literacy Partners, Inc.  
New York, New York**

We have audited the accompanying statement of financial position of Literacy Partners, Inc. (the "Organization") as of June 30, 2009, 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 summarized financial information has been derived from the Organization's 2008 financial statements and, in our report dated October 27, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Literacy Partners, Inc. at June 30, 2009, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
October 1, 2009**

# LITERACY PARTNERS, INC.

## STATEMENT OF FINANCIAL POSITION

June 30, 2009 and 2008

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	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash	\$ 362,428	\$ 503,148
Investments ( <i>Note 3</i> )	4,684,100	5,728,407
Grants and pledges receivable	-	12,999
Accounts receivable and other assets	212,190	91,385
Prepaid expenses	45,094	36,068
Equipment, net of accumulated depreciation of \$128,785 in 2009 and \$128,150 in 2008	71,523	98,602
Security deposit	<u>20,000</u>	<u>20,000</u>
<b>Total assets</b>	<u>\$5,395,335</u>	<u>\$6,490,609</u>
<b>LIABILITIES</b>		
Accounts payable and other accrued expenses	<u>\$ 68,076</u>	<u>\$ 71,801</u>
<b>NET ASSETS (<i>Note 5</i>)</b>		
Unrestricted		
Operations	(40,208)	638,421
Board designated	<u>106,365</u>	<u>506,286</u>
<b>Total unrestricted net assets</b>	66,157	1,144,707
Permanently restricted	<u>5,261,102</u>	<u>5,274,101</u>
<b>Total net assets</b>	<u>5,327,259</u>	<u>6,418,808</u>
<b>Total liabilities and net assets</b>	<u>\$5,395,335</u>	<u>\$6,490,609</u>

# LITERACY PARTNERS, INC.

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2009 with Summarized Information for 2008

	UNRESTRICTED			Permanently Restricted	2009	2008
	Operations	Board Designated	Total			
<b>REVENUES</b>						
<b>Public Support</b>						
Foundation grants	\$ 209,896	\$ -	\$ 209,896	\$ -	\$ 209,896	\$ 494,147
Corporate contributions	172,658	-	172,658	-	172,658	167,919
Individuals	97,558	-	97,558	-	97,558	293,701
Government contracts	531,755	-	531,755	-	531,755	354,510
Contributed goods and services	322,987	-	322,987	-	322,987	534,529
<b>Total public support</b>	<u>1,334,854</u>	<u>-</u>	<u>1,334,854</u>	<u>-</u>	<u>1,334,854</u>	<u>1,844,806</u>
<b>Other Revenue</b>						
Fund raising events, net of direct benefit to donors of \$342,675 in 2009 and \$266,904 in 2008	1,240,964	-	1,240,964	-	1,240,964	1,044,468
Investment income	1,427	1,986	3,413	-	3,413	12,356
Investment return designated for current operations ( <i>Note 3</i> )	275,000	-	275,000	-	275,000	155,000
Other revenue	4,873	-	4,873	-	4,873	5,652
<b>Total other revenue</b>	<u>1,522,264</u>	<u>1,986</u>	<u>1,524,250</u>	<u>-</u>	<u>1,524,250</u>	<u>1,217,476</u>
<b>Total public support and other revenue</b>	<u>2,857,118</u>	<u>1,986</u>	<u>2,859,104</u>	<u>-</u>	<u>2,859,104</u>	<u>3,062,282</u>
<b>EXPENSES</b>						
Program services	1,906,778	-	1,906,778	-	1,906,778	2,157,326
Supporting services						
Management and general	450,773	-	450,773	-	450,773	444,166
Fundraising	515,169	-	515,169	-	515,169	558,764
<b>Total supporting services</b>	<u>965,942</u>	<u>-</u>	<u>965,942</u>	<u>-</u>	<u>965,942</u>	<u>1,002,930</u>
<b>Total expenses</b>	<u>2,872,720</u>	<u>-</u>	<u>2,872,720</u>	<u>-</u>	<u>2,872,720</u>	<u>3,160,256</u>
<b>Excess (deficiency) of revenues over expenses</b>	(15,602)	1,986	(13,616)	-	(13,616)	(97,974)
<b>Other Changes</b>						
Investment return in excess (deficit) of amounts designated for current operations ( <i>Note 3</i> )	-	(1,077,933)	(1,077,933)	-	(1,077,933)	(560,444)
Write-off of pledge receivable	12,999	-	12,999	(12,999)	-	-
Deficit balance in quasi endowment net assets	(676,026)	676,026	-	-	-	-
<b>Change in net assets</b>	<u>(678,629)</u>	<u>(399,921)</u>	<u>(1,078,550)</u>	<u>(12,999)</u>	<u>(1,091,549)</u>	<u>(658,418)</u>
<b>Net Assets</b>						
Beginning of year	638,421	506,286	1,144,707	5,274,101	6,418,808	7,077,226
<b>End of year</b>	<u>\$ (40,208)</u>	<u>\$ 106,365</u>	<u>\$ 66,157</u>	<u>\$ 5,261,102</u>	<u>\$ 5,327,259</u>	<u>\$ 6,418,808</u>

See accompanying notes to financial statements.

# LITERACY PARTNERS, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2009 with Summarized Information for 2008

	2009				2008			
	Program Services			Total Program	Support Services			
	Educational Support	Basic Educational Centers	Family Literacy Centers		General And Administrative	Fundraising	Total	Total
Salaries	\$546,987	\$373,104	\$ 93,895	\$ 1,013,986	\$218,246	\$131,710	\$ 1,363,942	\$ 1,338,921
Payroll taxes and benefits	113,289	90,634	18,036	221,959	41,510	14,915	278,384	291,323
Contributed services and facilities	60,576	240,091	22,320	322,987	-	-	322,987	534,529
Library	375	10,263	118	10,756	375	21	11,152	20,772
Occupancy	50,691	137,846	21,187	209,724	45,072	24,299	279,095	280,575
Telephone	4,470	10,165	2,056	16,691	10,142	2,236	29,069	34,727
Printing/postage	3,081	1,540	230	4,851	2,650	13,602	21,103	46,294
Office supplies and equipment	8,139	14,491	2,803	25,433	7,632	5,552	38,617	48,257
Travel and conferences	3,058	978	73	4,109	8,109	436	12,654	14,999
Professional fees	-	-	-	-	28,050	-	28,050	26,295
Fund-raising events	-	-	-	-	-	100,481	100,481	247,368
Contributed advertising	-	-	-	-	-	158,014	158,014	-
Insurance	11,294	22,593	4,840	38,727	12,219	4,840	55,786	64,878
Consultants/outside services	30,150	319	-	30,469	1,465	43,804	75,738	100,513
Computer expenses	-	383	-	383	8,585	2,543	11,511	18,901
Staff development	-	-	-	-	50	-	50	1,444
Miscellaneous	5,289	1,358	56	6,703	25,093	12,716	44,512	60,285
Bad debt expense	-	-	-	-	12,999	-	12,999	-
Depreciation	-	-	-	-	28,576	-	28,576	30,175
<b>Total functional expenses</b>	<u>\$837,399</u>	<u>\$903,765</u>	<u>\$ 165,614</u>	<u>\$ 1,906,778</u>	<u>\$450,773</u>	<u>\$515,169</u>	<u>\$ 2,872,720</u>	<u>\$ 3,160,256</u>

# LITERACY PARTNERS, INC.

## STATEMENT OF CASH FLOWS

June 30, 2009 and 2008

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	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$(1,091,549)	\$ (658,418)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	28,576	30,175
Realized and unrealized loss on investments	948,867	588,806
(Increase) decrease in current assets		
Grants and pledges receivable	12,999	43,125
Accounts receivable	(120,805)	43,747
Prepaid expenses	(9,026)	37,710
Increase (decrease) in accounts payable and accrued expenses	<u>(3,725)</u>	<u>(7,021)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>(234,663)</u>	<u>78,124</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	1,198,169	1,507,530
Purchase of investments	(1,102,729)	(1,737,772)
Purchase of furniture, fixtures and equipment	<u>(1,497)</u>	<u>(11,090)</u>
<b>Net cash provided by (used in) investing activities</b>	<u>93,943</u>	<u>(241,332)</u>
<b>Net decrease in cash</b>	(140,720)	(163,208)
<b>CASH</b>		
Beginning of year	<u>503,148</u>	<u>666,356</u>
End of year	<u>\$ 362,428</u>	<u>\$ 503,148</u>

# LITERACY PARTNERS, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

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### (1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *ORGANIZATION*

Literacy Partners, Inc. (the “*Organization*”) provides free community-based adult and family literacy programs to assure that all adults have the access to quality education needed to fully realize their potential as individuals, parents and citizens.

#### *TAX EXEMPT STATUS*

The Organization is incorporated as a not-for-profit organization, and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local taxes under comparable laws.

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *ACCRUAL BASIS OF ACCOUNTING*

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and conform to generally accepted accounting principles as applicable to not-for-profit organizations.

#### *ACCOUNTING 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, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

#### *SUBSEQUENT EVENTS*

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, October 1, 2009, have been evaluated in the preparation of the financial statements.

#### *ALLOCATION OF EXPENSES*

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

#### *CONCENTRATION OF CREDIT RISK*

The Organization occasionally maintains deposits in excess of federally insured limits. Statement of Financial Accounting Standards No. 107 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

# LITERACY PARTNERS, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2009 and 2008

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### NET ASSETS

The net assets of the Organization and changes therein are classified and reported as follows:

- ♦ **Unrestricted:** Unrestricted assets include the net assets that are associated with the principal mission of the Organization.
- ♦ **Unrestricted – Designated for Investment:** Endowment income designated by the Board of Directors for long-term investments (quasi-endowment net assets) and a reserve for the start-up of a charitable gift annuity fund.
- ♦ **Temporarily Restricted:** Temporarily restricted assets include contributions and other assets received with donor stipulations that limit the use of the donated asset. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “*net assets released from restrictions.*”
- ♦ **Permanently Restricted:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. 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.

### CONTRIBUTIONS

All unconditional contributions to the Organization are recorded as revenue when received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor. The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. The Organization records unconditional promises to give (pledges) as a receivable and revenue in the year pledged. As of June 30, 2009 and 2008, all pledges are due within one year.

### GOVERNMENT GRANTS AND OTHER CONTRACTS

The Organization records revenue from government and other contracts as expenses are incurred.

### INVESTMENTS

Investments are reported at their fair values, with gains and losses, included in the accompanying statements of activities. Net investment income is recorded as unrestricted unless specifically restricted by the donors. Contributions of marketable securities are recorded at their market values at the dates of donation.

### EQUIPMENT

Equipment is recorded at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, generally five years.

# LITERACY PARTNERS, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2009 and 2008

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### **CONTRIBUTIONS IN-KIND**

A substantial number of volunteers have made significant contributions of their time to tutor students participating in the Organization's programs. These donated services are a significant and integral part of the efforts of the Organization and would have to be performed by salaried personnel if the services had not been donated. The estimated fair value of the instructional hours is reported as support and a corresponding expense in the statement of activities. The fair value of such services is computed using the annual number of hours contributed multiplied by the hourly rate that would be paid if such services were to be performed by salaried personnel. Contributed services from individuals and organizations other than those for instructional purpose are not recorded.

The Organization occupies, without charge, various sites located throughout the city that are used for program operations. The estimated fair rentals are reported as support and expense. The fair rentals are computed by using various factors such as the estimated square feet and space occupied, the number of annual hours the site is used and the rent that would be paid if such facilities were not donated.

### **RECLASSIFICATION**

Certain reclassifications were made to the 2008 financial statements to conform to the 2009 presentation.

### **PRIOR YEAR INFORMATION**

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2008, from which the summarized information was derived.

### **(3) INVESTMENTS**

The following is a summary of the Organization's investments at June 30, 2009 and 2008.

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Mutual Funds	\$4,901,446	\$4,343,811	\$5,022,135	\$5,282,077
Common Stocks	<u>355,807</u>	<u>340,289</u>	<u>525,979</u>	<u>446,330</u>
	<u>\$5,257,253</u>	<u>\$4,684,100</u>	<u>\$5,548,114</u>	<u>\$5,728,407</u>

At June 30, 2009 and 2008, unrealized gains (losses) were \$(573,153) and \$180,293, respectively.

The Organization uses the total return concept for Endowment Fund income. Under this concept, endowment income to be distributed is established at 5% of the average market values of the endowment assets of the prior three years. Total endowment income distributed for operations amounted to \$275,000 and \$155,000 for 2009 and 2008, respectively.

# LITERACY PARTNERS, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2009 and 2008

The following schedule summarizes the investment return of the endowment funds and its classification in the statement of activities:

	<b>Unrestricted Board Designated</b>	<b>June 30, 2009 Total</b>	<b>June 30, 2008 Total</b>
Interest and dividends (net of management fees of \$20,320)	\$ 143,986	\$ 143,986	\$ 181,912
Net realized and unrealized gains (losses)	<u>(946,919)</u>	<u>(946,919)</u>	<u>(587,356)</u>
Return on long-term investments	(802,933)	(802,933)	(405,444)
Investment return designated for current operations	<u>(275,000)</u>	<u>(275,000)</u>	<u>(155,000)</u>
Investment return in excess (deficit) of amounts designated for current operations	<u>\$(1,077,933)</u>	<u>\$(1,077,933)</u>	<u>\$(560,444)</u>

On July 1, 2008, the Organization adopted Financial Accounting Standards Board No. 157 “*Fair Value Measurements*,” which was issued in September 2006 effective for fiscal years beginning after November 15, 2007. This standard clarifies the definition of fair value and requires additional disclosures about the use of fair value measurements. The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1 – quoted prices in active markets for identical securities.

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3 – significant unobservable inputs (including the Organization’s own assumptions in determining the fair value of investments).

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value the Organization’s investments as of June 30, 2009 is as follows:

	<b>Total</b>	<b>Level 1 Quoted Prices</b>	<b>Level 2 Other Significant Observable Inputs</b>	<b>Level 3 Significant Unobservable Inputs</b>
Mutual Funds	\$4,343,811	\$4,343,811	\$ -	\$ -
Common Stocks	<u>340,289</u>	<u>340,289</u>	<u>-</u>	<u>-</u>
	<u>\$4,684,100</u>	<u>\$4,684,100</u>	<u>\$ -</u>	<u>\$ -</u>

# LITERACY PARTNERS, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2009 and 2008

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### (4) LEASE COMMITMENTS

The Organization has two lease agreements, one of which expires on June 30, 2010 and the second lease agreement expires on June 30, 2015. The Organization has an option to renew the lease expiring in 2015 for an additional five years through June 30, 2020. In addition, the Organization leases certain office equipment under a lease agreement expiring on December 31, 2012.

Future minimum rental commitments (exclusive of electricity and real estate taxes) under these leases are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 237,500
2011	215,100
2012	219,600
2013	217,200
2014	215,100
2015 and thereafter	<u>219,900</u>
	<u>\$1,324,400</u>

Rent expense for the years ended June 30, 2009 and 2008 amounted to approximately \$232,200 and \$225,900, respectively. In addition, donated space received by the Organization was approximately \$100,400 and \$65,400 for the years ended June 30, 2009 and 2008, respectively, and is included in contributed services and facilities in the statement of activities.

### (5) NET ASSETS

Permanently restricted net assets consist of the following:

	<u>2009</u>	<u>2008</u>
The Liz Smith Adult Literacy Fund	<u>\$5,261,102</u>	<u>\$5,274,101</u>

Endowment net asset composition by type of fund as of June 30, 2009 and 2008:

	<u>2009</u>		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$(676,026)*</u>	<u>\$5,261,102</u>	<u>\$4,585,076</u>

\* *Deficit amount charged against operations*

	<u>2008</u>		
	<u>Unrestricted Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$401,907</u>	<u>\$5,274,101</u>	<u>\$5,676,008</u>

The Organization classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as permanently restricted net assets. Income earned on such gifts is classified as unrestricted.

# LITERACY PARTNERS, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2009 and 2008

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	<u>2009</u>		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 401,907	\$5,274,101	\$ 5,676,008
Investment return in deficiency of amounts designated for current operations	(1,077,933)	-	(1,077,933)
Write-off of pledge receivable	<u>-</u>	<u>(12,999)</u>	<u>(12,999)</u>
	<u>\$ (676,026)*</u>	<u>\$5,261,102</u>	<u>\$ 4,585,076</u>

\* *Deficit amount charged against operations*

	<u>2008</u>		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 962,315	\$5,271,101	\$6,233,416
Contributions/other	36	3,000	3,036
Investment return in deficiency of amounts designated for current operations	<u>(560,444)</u>	<u>-</u>	<u>(560,444)</u>
	<u>\$ 401,907</u>	<u>\$5,274,101</u>	<u>\$5,676,008</u>

### (6) PENSION PLAN

The Organization has a defined contribution plan covering all eligible full-time employees. Under this plan, eligible employees may contribute up to 5% of their gross wages to be applied to individual annuities issued to each participant by the Teachers Insurance and Annuity Association (“TIAA”) and the College Retirement Equities Fund (“CREF”). The Organization will match the percentage the employee contributes. Employee and employer contributions vest immediately. During the years ended June 30, 2009 and 2008, the Organization contributed approximately \$28,800 and \$30,900, respectively, to the plan.