

CHILDREN'S LITERACY CENTER, INC.

Financial Statements

For the Year Ended May 31, 2008

And

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's Literacy Center, Inc.

We have audited the accompanying balance sheet of Children's Literacy Center, Inc. (the Center) as of May 31, 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 Center'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 Center's 2007 financial statements, and in our opinion dated September 17, 2007, we expressed an unqualified opinion on these 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 Children's Literacy Center, Inc. as of May 31, 2008, and the change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Stockman Kast Ryan & Co., LLP

November 20, 2008

CHILDREN'S LITERACY CENTER, INC.

BALANCE SHEET

MAY 31, 2008 (with comparative totals for 2007)

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash	\$ 11,865	\$ 21,476
Current portion of promises to give	10,180	10,000
Accounts receivable	4,168	4,000
Inventory	<u>124,933</u>	<u>126,472</u>
Total	151,146	161,948
INVESTMENTS	170,669	174,481
PROMISES TO GIVE		10,000
PROPERTY AND EQUIPMENT, net	<u>349,506</u>	<u>351,197</u>
TOTAL	<u>\$ 671,321</u>	<u>\$ 697,626</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,742	\$ 3,467
Accrued expenses	<u>18,527</u>	<u>10,975</u>
Total	<u>20,269</u>	<u>14,442</u>
NET ASSETS		
Unrestricted:		
Operating	466,921	272,702
Board designated for long-term investment	170,669	174,482
Board designated for Peak Reader kits	<u> </u>	<u>200,000</u>
Total	637,590	647,184
Temporarily restricted	<u>13,462</u>	<u>36,000</u>
Total	<u>651,052</u>	<u>683,184</u>
TOTAL	<u>\$ 671,321</u>	<u>\$ 697,626</u>

See notes to financial statements.

CHILDREN'S LITERACY CENTER, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MAY 31, 2008 (with comparative totals for 2007)

	2008			2007 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUE AND OTHER SUPPORT				
In-kind contributions	\$ 1,379,373		\$ 1,379,373	\$ 1,004,315
Contribution and grant revenue	181,060	\$ 16,700	197,760	196,312
Fundraising events, net of direct costs of \$89,313 in 2008 and \$11,882 in 2007	64,159		64,159	11,302
Training revenue	8,844		8,844	150
Peak Reader sales, net of cost of goods sold of \$1,100 in 2008 and \$549 in 2007	4,939		4,939	2,300
Net investment income	3,832		3,832	23,717
Miscellaneous income	800		800	1,010
Net assets released from restrictions	<u>39,238</u>	<u>(39,238)</u>	<u> </u>	<u> </u>
Total	<u>1,682,245</u>	<u>(22,538)</u>	<u>1,659,707</u>	<u>1,239,106</u>
EXPENSES				
Program services:				
Tutor program	1,618,119		1,618,119	1,268,010
Support services:				
General and administrative	54,119		54,119	56,469
Fundraising	<u>19,601</u>	<u> </u>	<u>19,601</u>	<u>20,176</u>
Total	<u>1,691,839</u>	<u> </u>	<u>1,691,839</u>	<u>1,344,655</u>
CHANGE IN NET ASSETS	(9,594)	(22,538)	(32,132)	(105,549)
NET ASSETS, Beginning of year	<u>647,184</u>	<u>36,000</u>	<u>683,184</u>	<u>788,733</u>
NET ASSETS, End of year	<u>\$ 637,590</u>	<u>\$ 13,462</u>	<u>\$ 651,052</u>	<u>\$ 683,184</u>

See notes to financial statements.

CHILDREN'S LITERACY CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED MAY 31, 2008 (with comparative totals for 2007)

	2008				2007 Total
	Tutor Program	General and Administrative	Fundraising	Total	
Tutors and volunteers	\$ 1,361,097			\$ 1,361,097	\$ 1,003,311
Salaries and benefits	211,473	\$ 24,879	\$ 12,440	248,792	244,711
Depreciation and amortization	14,525	1,709	854	17,088	15,354
Occupancy	8,782	1,033	517	10,332	17,152
Printing and postage	3,051	290	5,355	8,696	7,218
Public relations and advertising	8,583			8,583	4,159
Bookkeeper		8,497		8,497	8,496
Professional fees		7,300		7,300	7,251
Insurance		4,625		4,625	5,073
Telephone and paging	1,431	2,581		4,012	6,282
Auto and travel	3,535	21	63	3,619	2,113
Meetings	797		290	1,087	1,278
Bank charges		873		873	433
Office supplies		671	82	753	2,724
Outside services	650			650	680
Inventory write-down					14,616
Miscellaneous	4,195	1,640		5,835	3,804
Total — 2008	\$ 1,618,119	\$ 54,119	\$ 19,601	\$ 1,691,839	
Percent of total — 2008	96%	3%	1%	100%	
Comparative totals — 2007	\$ 1,268,010	\$ 56,469	\$ 20,176		\$ 1,344,655
Percent of total — 2007	94%	4%	2%		100%

See notes to financial statements.

CHILDREN'S LITERACY CENTER, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MAY 31, 2008 (with comparative totals for 2007)

	2008	2007
OPERATING ACTIVITIES		
Change in net assets	\$ (32,132)	\$ (105,549)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,088	15,354
Net realized and unrealized gains on investments	(353)	(16,962)
Changes in operating assets and liabilities:		
Promises to give	9,820	10,250
Accounts receivable	(168)	(250)
Inventory	1,539	8,354
Accounts payable	(1,725)	(16,271)
Accrued expenses	<u>7,552</u>	<u>446</u>
Net cash provided by (used in) operating activities	<u>1,621</u>	<u>(104,628)</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	48,192	361,770
Purchase of investments	(44,027)	(9,115)
Purchases of property and equipment	<u>(15,397)</u>	<u>(349,506)</u>
Net cash provided by (used in) investing activities	<u>(11,232)</u>	<u>3,149</u>
NET DECREASE IN CASH	(9,611)	(101,479)
CASH, Beginning of year	<u>21,476</u>	<u>122,955</u>
CASH, End of year	<u>\$ 11,865</u>	<u>\$ 21,476</u>

See notes to financial statements.

CHILDREN'S LITERACY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Children's Literacy Center, Inc. (the Center) is a non-profit organization established in 1992 that provides one-to-one reading tutoring for qualified children in Colorado.

Basis of Presentation — The accompanying financial statements include certain prior-year summarized comparative information in total. 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 Center's financial statements for the year ended May 31, 2007, from which the summarized information was derived.

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets which represents resources restricted by donors as to purpose or by the passage of time and permanently restricted net assets which represents resources whose use by the organization is limited by donor imposed-stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center.

Revenue Recognition — Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Center reports gifts of furnishings and equipment as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire furnishings and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Promises to Give — Unconditional promises to give are recognized as support and assets in the period received. Promises to give are recorded at net realizable value if expected to be collected within one year and at the present value of estimated future cash flows if expected to be collected in more than one year. In the current year discounts were not taken on contributions to be collected in more than one year since the discount would not be material. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management believes that all contributions receivable are fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

Investments — Investments are carried at fair market value. Realized and unrealized gains and losses are reflected in the statement of activities and are available for current operations.

Property and Equipment — All acquisitions of property and equipment in excess of \$500 which have a useful life of greater than one year and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the lives of assets are capitalized. Property and equipment are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which for current holdings range from five to 30 years.

Inventory — Inventory is stated at the lower of first-in, first-out (FIFO) cost or market.

Statement of Functional Expenses — The costs of providing various program and supporting services 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.

Donated Services and Materials — Donated services and materials are recorded as both a revenue and expenditure in the accompanying statements of activities and changes in net assets at their estimated values. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

For the years ended May 31, 2008 and 2007, in-kind contributions totaled \$1,379,373 and \$1,004,315, respectively, all of which was for donated services of advertising, tutoring and professional fees.

Additionally, donated classroom space is provided at various sites throughout the area served. No value has been reported in the financial statements as revenue or expense for this donated space.

Tax Status — The Center is a not-for-profit corporation which is not classified as a private foundation by the Internal Revenue Service and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates — Preparation of the Center's 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 income and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications — Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2. PROMISES TO GIVE

Unconditional promises to give are as follows:

	2008	2007
Due in less than one year	\$ 10,180	\$ 10,000
Due in one to five years	<u> </u>	<u>10,000</u>
Total	<u>\$ 10,180</u>	<u>\$ 20,000</u>

3. INVESTMENTS

Market value, cost, and unrealized appreciation of investment securities consist of the following:

	2008			2007		
	Market Value	Cost	Unrealized Appreciation	Market Value	Cost	Unrealized Appreciation
Equity mutual funds	\$ 117,051	\$ 91,323	\$ 25,728	\$ 144,545	\$ 102,165	\$ 42,380
Money market funds	36,841	36,841		13,930	13,930	
Certificate of deposit	16,777	16,777		16,006	16,006	
Total	<u>\$ 170,669</u>	<u>\$ 144,941</u>	<u>\$ 25,728</u>	<u>\$ 174,481</u>	<u>\$ 132,101</u>	<u>\$ 42,380</u>

Investment income consists of the following:

	2008	2007
Realized and unrealized gains	\$ 353	\$ 16,962
Interest and dividends	<u>3,479</u>	<u>6,755</u>
Total	<u>\$ 3,832</u>	<u>\$ 23,717</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2008	2007
Building	\$ 347,891	\$ 347,891
Furniture and equipment	40,606	25,210
Computer equipment	<u>18,738</u>	<u>18,738</u>
Total	407,235	391,839
Less accumulated depreciation	<u>(57,729)</u>	<u>(40,642)</u>
Property and equipment — net	<u>\$ 349,506</u>	<u>\$ 351,197</u>

5. INVENTORY

Inventory consists of the following:

	2008	2007
Peak Readers	\$ 97,192	\$ 98,730
Boxes	1,774	1,774
Work in progress	<u>25,967</u>	<u>25,968</u>
Total	<u>\$ 124,933</u>	<u>\$ 126,472</u>

6. RESTRICTED NET ASSETS

As of May 31, 2008, temporarily restricted net assets of \$10,180 and \$3,282 are available for future periods and program site development, respectively. As of May 31, 2007, temporarily restricted net assets of \$20,000 and \$16,000 are available for future periods and program site development, respectively.

7. BOARD DESIGNATED FUNDS

Board designated funds for long-term investment consist of cash and mutual funds set aside for long-term financial stability. The Board has directed that up to 5% of the earnings on these assets may be used for general operations.

The Board had designated \$200,000 to fund the development and production of additional Peak Readers as of 2007. The designation was eliminated for 2008.

8. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Center to concentrations of credit risk consist of cash accounts with, in the opinion of management, credit worthy, high-quality financial institutions. A portion of the funds are not insured by the FDIC or related entity.

9. RETIREMENT PLANS

The Center provides a bonus option for employees for the purpose of participating in a SIMPLE individual retirement plan (IRA). The allotment may not be used for any other purpose and cannot be transferred to taxable salary income. Employees are eligible to participate after two years of service and the Center offers a three percent match on contributions. Retirement plan expenses for the years ended May 31, 2008 and 2007 was \$2,585 and \$2,042, respectively.

