

**THE LITERACY ALLIANCE, INC.**

**FORT WAYNE, INDIANA**

**Financial Statements**

**as of August 31, 2008 and 2007**

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*LEONARD J. ANDORFER & CO., LLP*

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
The Literacy Alliance, Inc.  
Fort Wayne, Indiana

We have audited the accompanying statements of financial position of The Literacy Alliance, Inc. (a nonprofit organization) as of August 31, 2008 and 2007, and the related statements of activities and net assets, functional expenses and cash flows for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Literacy Alliance, Inc. as of August 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Leonard J. Andorfer et al LLP*

LEONARD J. ANDORFER & CO., LLP  
Certified Public Accountants

November 24, 2008

**THE LITERACY ALLIANCE, INC.**

**Statements of Financial Position**

<b>ASSETS</b>	<u>August 31 2008</u>	<u>August 31 2007</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 145,035	\$ 101,541
Grant receivable	22,114	23,404
Prepaid expenses	<u>-</u>	<u>950</u>
Total Current Assets	167,149	125,895
<b>INVESTMENT - COMMUNITY FOUNDATION OF GREATER FORT WAYNE</b>		
	48,860	56,612
<b>PROPERTY AND EQUIPMENT</b>		
Equipment	139,130	141,005
Less accumulated depreciation	<u>( 133,027 )</u>	<u>( 128,362 )</u>
Total Property and Equipment (Net)	<u>6,103</u>	<u>12,643</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 222,112</u></u>	<u><u>\$ 195,150</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 3,937	\$ 2,013
<b>NET ASSETS</b>		
Unrestricted	111,227	103,553
Temporarily restricted	106,948	89,584
Permanently restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>218,175</u>	<u>193,137</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 222,112</u></u>	<u><u>\$ 195,150</u></u>

The Notes to Financial Statements  
are an integral part of the statements.

**THE LITERACY ALLIANCE, INC.**

**Statements of Activities and Net Assets**

	Year Ended August 31	
	2008	2007
<b>UNRESTRICTED NET ASSETS</b>		
<b>Support</b>		
Government grants	\$ 86,479	\$ 78,214
Foundation grants	225,249	233,200
Business contributions	29,487	7,280
Individual contributions	27,334	17,853
Fund raising	10,886	22,006
United Way	105,000	63,333
In-kind support	21,350	31,361
Miscellaneous income	1,120	1,553
Loss on disposition of assets	( 73 )	( 60 )
<b>Revenue</b>		
Interest income	3,318	4,604
Unrealized investment income (loss)	( 4,353 )	6,558
<b>Net assets released from restrictions</b>		
Restrictions satisfied by payments	105,296	148,990
Total Unrestricted Support and Revenue and Reclassifications	611,093	614,892
 <b>EXPENSES</b>		
<b>Program services</b>		
Family Literacy	195,364	200,754
Adult Instruction	228,614	223,470
Read to Me	74,585	97,471
<b>Supporting services</b>		
Management and general	38,249	47,317
Fund raising	66,607	65,734
Total Expenses	603,419	634,746
 <b>CHANGE IN UNRESTRICTED NET ASSETS</b>	7,674	( 19,854 )
 <b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Support for program services	122,660	130,542
Net assets released from restrictions		
Restrictions satisfied by payments	( 105,296 )	( 148,990 )
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	17,364	( 18,448 )
 <b>CHANGE IN NET ASSETS</b>	25,038	( 38,302 )
 <b>NET ASSETS - BEGINNING OF YEAR</b>	193,137	231,439
 <b>NET ASSETS - END OF YEAR</b>	\$ 218,175	\$ 193,137

The Notes to Financial Statements  
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THE LITERACY ALLIANCE, INC.

Statement of Functional Expenses  
For the Year Ended August 31, 2008

	Program Services		Program Services Read To Me	Supporting Services		Total Expenses
	Family Literacy	Adult Instruction		Management and General	Fund Raising	
Salaries	\$ 75,602	\$ 146,654	\$ 21,227	\$ 24,605	\$ 30,513	\$ 298,601
Payroll taxes	6,207	12,108	1,678	1,886	2,372	24,251
Staff development	5,482	48	-	-	609	6,139
Medical insurance	9,849	9,790	1,252	2,217	2,221	25,329
Total Employee Expenses	97,140	168,600	24,157	28,708	35,715	354,320
Instruction	25,206	825	-	-	-	26,031
Resource material	4,380	21,818	31,347	-	-	57,545
Advertising and promotion	50	675	-	-	2,919	3,644
Professional services	19,608	7,737	4,014	1,171	2,862	35,392
Supplies	5,429	2,149	977	961	1,781	11,297
Telephone	754	754	501	504	504	3,017
Postage and shipping	243	412	256	245	3,127	4,283
Insurance	823	1,334	511	354	200	3,222
Occupancy	14,419	17,827	8,935	5,081	4,702	50,964
Travel	200	773	-	-	-	973
Printing and publications	706	1,111	692	279	6,100	8,888
Dues and subscriptions	129	291	258	284	244	1,206
Student expense	5,555	3,261	1,811	-	-	10,627
Child care	17,794	-	-	-	-	17,794
Special events	-	-	-	-	7,749	7,749
Total Before Depreciation	192,436	227,567	73,459	37,587	65,903	596,952
Depreciation of equipment	2,928	1,047	1,126	662	704	6,467
Total Expenses	\$ 195,364	\$ 228,614	\$ 74,585	\$ 38,249	\$ 66,607	\$ 603,419

The Notes to Financial Statements  
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THE LITERACY ALLIANCE, INC.

Statement of Functional Expenses  
For the Year Ended August 31, 2007

	Program Services		Program Services Read To Me	Supporting Services		Total Expenses
	Family Literacy	Learning Centers		Management and General	Fund Raising	
Salaries	\$ 81,485	\$ 155,772	\$ 21,262	\$ 24,874	\$ 30,781	\$ 314,174
Payroll taxes	6,789	13,173	1,801	2,046	2,682	26,491
Staff development	8,538	93	-	-	-	8,631
Medical insurance	12,521	10,273	963	4,174	4,174	32,105
Total Employee Expenses	109,333	179,311	24,026	31,094	37,637	381,401
Instruction	23,347	825	-	-	-	24,172
Resource material	528	4,521	50,578	-	-	55,627
Advertising and promotion	295	819	295	295	3,269	4,973
Professional services	19,433	6,105	3,360	7,051	3,156	39,105
Supplies	4,416	2,517	1,085	890	1,332	10,240
Telephone	773	773	489	492	467	2,994
Postage and shipping	557	939	306	553	3,892	6,247
Insurance	831	1,038	415	208	104	2,596
Occupancy	15,013	17,888	8,696	5,091	4,474	51,162
Travel	179	342	-	-	47	568
Printing and publications	124	504	25	62	2,258	2,973
Dues and subscriptions	266	310	94	148	80	898
Student expense	5,727	3,881	4,735	-	-	14,343
Child care	16,200	-	-	-	-	16,200
Special events	-	859	-	204	7,205	8,268
Total Before Depreciation	197,022	220,632	94,104	46,088	63,921	621,767
Depreciation of equipment	3,732	2,838	3,367	1,229	1,813	12,979
Total Expenses	\$ 200,754	\$ 223,470	\$ 97,471	\$ 47,317	\$ 65,734	\$ 634,746

The Notes to Financial Statements  
are an integral part of the statements.

**THE LITERACY ALLIANCE, INC.**

**Statements of Cash Flows**

	Year Ended August 31	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 25,038	( \$ 38,302 )
<b>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</b>		
Depreciation	6,467	12,979
Unrealized investment (income) loss	7,752	( 4,558 )
Decrease (increase) in grants receivable	1,290	( 7,979 )
Decrease in prepaid expenses	950	1,167
Increase (decrease) in accounts payable and accrued expenses	1,924	( 2,770 )
Loss on disposition of assets	73	60
	43,494	( 39,403 )
Net Cash Provided by (Used For) Operating Activities	43,494	( 39,403 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Equipment acquisitions	-	( 2,332 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	43,494	( 41,735 )
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	101,541	143,276
<b>CASH AND CASH EQUIVALENTS- END OF YEAR</b>	\$ 145,035	\$ 101,541

The Notes to Financial Statements  
are an integral part of the statements.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies

**Nature of Activities** - The mission of The Literacy Alliance is “to strive to end illiteracy by teaching adults through Learning Centers, literacy programs and tutoring services that empower individuals to succeed at work, at home, and in the community.” To that end, the organization provides instruction for adults through one-on-one tutoring, adult Learning Centers, and a collaborative Family Literacy project. The Literacy Alliance also conducts the Read to Me Campaign that encourages adults to read to children by distributing new children’s books to low-income families.

**Promises to Give** - Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years’ experience and management’s analysis of specific promise made.

**Contributed Services and Gifts in Kind** - During the years ended August 31, 2008 and 2007, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the organization’s program services. The organization receives more than 5,400 volunteer hours per year.

The organization also receives the use of facilities used in its programs. The value of the donated facilities amounted to \$9,900 for each of the years ended August 31, 2008 and 2007.

**Use of Estimates** - The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Property and Equipment** - Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported 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 property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

**Financial Statement Presentation** - The organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the organization is required to report 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. In addition, the organization is required to present a statement of cash flows.

**Contributions** - The organization has adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and /or nature or any donor restrictions.

**Functional Expenses** - The Literacy Alliance, Inc. allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

**Income Taxes** - The Literacy Alliance, Inc. is a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the 50% charitable contribution limitation.

**Cash and Cash Equivalents** - For purposes of the statements of cash flows, the organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**Advertising Costs** - Advertising and promotional programs are charged to expense during the period in which they are incurred.

**Compensated Absences** - The organization's employee base is made up of full-time and part-time employees. No liability for compensated absences has been recorded in the financial statements. Any liability that may exist is deemed immaterial.

### NOTE 2 - Grant Receivable

The Literacy Alliance, Inc. incurs expenses and then submits requests for reimbursement by third-party grantors. The reimbursement requests are reviewed by the grantor, taking into consideration the purpose of the expenditures, the amount of the original grant and the provisions set forth. Grants receivable under these terms amounted to \$22,114 and \$23,404 as of August 31, 2008 and 2007, respectively.

### NOTE 3 - Off-Balance Sheet Risk

The organization maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The organization had deposits in excess of the federally insured limits at various times throughout the year. However, at August 31, 2008 and 2007, the organization had no uninsured cash balances.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 4 - Restrictions on Assets**

Temporarily restricted net assets result from non-reimbursement type grants in which the specifically stated grant terms do not coincide with the organization's fiscal year.

A reconciliation of temporarily restricted net assets follows:

	<u>Balance</u> <u>8/31/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>8/31/2008</u>
Community Foundation of Greater Fort Wayne -				
Technology and Equipment	\$ 4,849	\$	\$ 1,771	\$ 3,078
Operating Support	18,750	25,000	25,000	18,750
CAPE Grant - Equipment	2,135		2,135	-
Charles Kuhne Foundation -				
Books and Child Care	9,316	8,910	10,519	7,707
Comcast Foundation		40,000	17,663	22,337
GED Graduation	1,500	2,000	1,500	2,000
Lincoln Foundation - Family Literacy	35,000	35,000	22,341	47,659
Paul Clark Foundation - RTM	14,114		14,114	-
PHP - Movie Event	600		600	-
Rally to Read		1,200		1,200
Florence and Paul Staehle Foundation-				
Read to Me and Family Literacy		7,000	6,333	667
STOMP		3,550		3,550
Verizon Grant - Equipment	436		436	-
Verizon Grant - Read to Me	2,884		2,884	-
	<u>\$ 89,584</u>	<u>\$ 122,660</u>	<u>\$ 105,296</u>	<u>\$ 106,948</u>

**NOTE 5 – Line of Credit**

The organization has obtained a short-term line of credit from Star Financial Bank in the amount of \$100,000. The note calls for interest at a rate of prime plus 1% and is unsecured. There was no balance due on this line of credit as of August 31, 2008 or 2007.

**NOTE 6 - Leases**

The organization currently leases office space at a rate of \$2,045 per month on a fixed term lease which expires December 31, 2009. Estimated minimum future lease payments for the remaining term of the lease are as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Amount</u>
August 31, 2009	\$ 20,700
August 31, 2010	6,900

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **NOTE 7 - Investment - Community Foundation of Greater Fort Wayne**

During the fiscal year ended August 31, 2006, the Board of Directors made a contribution of \$50,000 to the Community Foundation of Greater Fort Wayne. The Foundation has final discretion on the investment and reinvestment of the assets which are held in a pooled fund. Proportional investment earnings less customary and usual fees will either be distributed to The Literacy Alliance, Inc. or added to the fund principal according to the terms of the agreement. As of June 30, 2008 and 2007, the balance in the Foundation amounted to \$48,860 and \$56,612, respectively.

Additionally, the Community Foundation of Greater Fort Wayne holds investment assets with a value of \$14,087 and \$15,776 as of June 30, 2008, and 2007, respectively, for the benefit of the Organization for which they have retained variance power. These investments are not recorded as assets of the Organization.