

THE LITERACY ALLIANCE, INC.

FORT WAYNE, INDIANA

Financial Statements

as of August 31, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 & CO., LLP
Certified Public Accountants

November 12, 2010

THE LITERACY ALLIANCE, INC.

Statements of Financial Position

ASSETS	August 31 2010	August 31 2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 103,540	\$ 204,831
Grant receivable	26,144	20,200
Prepaid expenses	50	-
	<u>129,734</u>	<u>225,031</u>
Total Current Assets	129,734	225,031
INVESTMENT - COMMUNITY FOUNDATION OF GREATER FORT WAYNE	39,717	37,487
PROPERTY AND EQUIPMENT		
Equipment	115,890	122,423
Less accumulated depreciation	(114,491)	(119,294)
	<u>1,399</u>	<u>3,129</u>
Total Property and Equipment (Net)	1,399	3,129
TOTAL ASSETS	<u>\$ 170,850</u>	<u>\$ 265,647</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,936	\$ 5,806
NET ASSETS		
Unrestricted	114,836	117,648
Temporarily restricted	53,078	142,193
Permanently restricted	-	-
	<u>167,914</u>	<u>259,841</u>
Total Net Assets	167,914	259,841
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 170,850</u>	<u>\$ 265,647</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	
	2010	2009
UNRESTRICTED NET ASSETS		
Support		
Government grants	\$ 84,008	\$ 145,405
Foundation grants	215,652	222,676
Business contributions	7,918	8,712
Individual contributions	18,683	17,155
Fund raising	7,079	13,048
United Way	55,000	94,042
In-kind support	19,420	51,127
Miscellaneous income	1,328	1,693
Loss on disposition of assets	-	(325)
Revenue		
Investment income	1,419	1,240
Unrealized investment gain (loss)	5,132	(7,525)
Net assets released from restrictions		
Restrictions satisfied by payments	145,086	109,442
Total Unrestricted Support, Revenue and Net Assets Released from Restrictions	560,725	656,690
 EXPENSES		
Program services		
Family Literacy	147,744	190,955
Adult Instruction	298,314	262,230
Read to Me	-	90,711
Supporting services		
Management and general	62,408	45,256
Fund raising	55,070	61,117
Total Expenses	563,536	650,269
 CHANGE IN UNRESTRICTED NET ASSETS	(2,811)	6,421
 TEMPORARILY RESTRICTED NET ASSETS		
Support for program services	55,971	144,687
Net assets released from restrictions		
Restrictions satisfied by payments	(145,086)	(109,442)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(89,115)	35,245
 CHANGE IN NET ASSETS	(91,926)	41,666
 NET ASSETS - BEGINNING OF YEAR	259,841	218,175
 NET ASSETS - END OF YEAR	\$ 167,915	\$ 259,841

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THE LITERACY ALLIANCE, INC.

Statement of Functional Expenses
For the Year Ended August 31, 2010

	Program Services		Supporting Services		Total Expenses
	Family Literacy	Adult Instruction	Management and General	Fund Raising	
Salaries	\$ 44,292	\$ 181,633	\$ 41,740	\$ 33,832	\$ 301,497
Payroll taxes	3,554	15,054	3,255	2,638	24,501
Staff development		25	859	515	1,399
Medical insurance	3,321	10,849	3,853	1,836	19,859
Total Employee Expenses	51,167	207,561	49,707	38,821	347,256
Instruction	38,571	350			38,921
Resource material	3,983	21,218			25,201
Advertising and promotion	435	1,014		1,474	2,923
Professional services	2,850	12,480	5,590	1,890	22,810
Supplies	3,843	1,595	906	1,954	8,298
Telephone	770	1,510	788	493	3,561
Postage and shipping	492	770	385	1,575	3,222
Insurance	793	1,595	691	643	3,722
Occupancy	13,056	35,012	2,615	2,615	53,298
Equipment rental and maintenance	1,207	5,203	808	817	8,035
Travel		88		20	108
Printing and publications	713	723	94	4,313	5,843
Dues and subscriptions	97	518	153	97	865
Student expense	6,744	6,668			13,412
Child care	19,264		261		19,525
Special events	3,514	1,292			4,806
Total Before Depreciation	147,499	297,597	61,998	54,712	561,806
Depreciation of equipment	245	717	410	358	1,730
Total Expenses	\$ 147,744	\$ 298,314	\$ 62,408	\$ 55,070	\$ 563,536

The Notes to Financial Statements
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THE LITERACY ALLIANCE, INC.

Statement of Functional Expenses
For the Year Ended August 31, 2009

	Program Services		Program Services Read To Me	Supporting Services		Total Expenses
	Family Literacy	Adult Instruction		Management and General	Fund Raising	
Salaries	\$ 76,393	\$ 165,689	\$ 19,819	\$ 26,385	\$ 31,010	\$ 319,296
Payroll taxes	6,432	13,043	1,570	2,063	2,436	25,544
Staff development	2,323	1,018			20	3,361
Medical insurance	9,668	9,877	1,375	1,500	1,500	23,920
Total Employee Expenses	94,816	189,627	22,764	29,948	34,966	372,121
Instruction	37,385	375				37,760
Resource material	748	25,966	50,963			77,677
Advertising and promotion	25	50	25		245	345
Professional services	2,745	8,032	4,438	5,147	3,316	23,678
Supplies	7,674	3,068	1,000	1,067	1,750	14,559
Telephone	792	792	526	529	529	3,168
Postage and shipping	388	648	208	377	2,005	3,626
Insurance	1,006	1,153	503	578	370	3,610
Occupancy	12,585	19,821	7,495	4,002	3,975	47,878
Equipment rental and maintenance	2,267	3,403	1,727	1,370	953	9,720
Travel	177	173			29	379
Printing and publications	1,063	1,398	442	673	6,467	10,043
Dues and subscriptions	201	534	389	319	349	1,792
Student expense	10,864	5,797				16,661
Child care	16,522					16,522
Special events	378	495		893	5,810	7,576
Total Before Depreciation	189,636	261,332	90,480	44,903	60,764	647,115
Depreciation of equipment	1,319	898	231	353	353	3,154
Total Expenses	\$ 190,955	\$ 262,230	\$ 90,711	\$ 45,256	\$ 61,117	\$ 650,269

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

THE LITERACY ALLIANCE, INC.

Statements of Cash Flows

	Year Ended August 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(\$ 91,926)	\$ 41,666
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,730	3,154
Unrealized investment (gain) loss	(5,132)	7,525
Decrease (increase) in grants receivable	(5,944)	1,914
Decrease (increase) in prepaid expenses	(50)	-
Increase (decrease) in accounts payable and accrued expenses	(2,871)	1,869
Loss on disposition of assets	-	325
	-	325
Net Cash Provided by (Used for) Operating Activities	(104,193)	56,453
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment acquisitions	-	(505)
Investment withdrawal	2,647	2,281
Decrease (increase) in investments	255	1,567
	2,902	3,343
Net Cash Provided by Investing Activities	2,902	3,343
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(101,291)	59,796
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	204,831	145,035
CASH AND CASH EQUIVALENTS- END OF YEAR	\$ 103,540	\$ 204,831

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 Literacy Alliance’s mission is “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.” In support of its mission, the organization provides instruction for adults through five community-based learning centers, three internet-connected computer labs, and two Family Literacy program sites. Volunteers are an essential part of the instruction team in all program areas. The organization also places a family library in each new Habitat for Humanity home at the time of dedication.

Through the spring of 2010, The Literacy Alliance participated in the development of a plan for the delivery of Adult Education services in northeast Indiana. While The Literacy Alliance has always provided instruction for adults who need additional support to achieve their educational goals, the plan identifies literacy level adults as a target population for its services.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of The Literacy Alliance, Inc. and changes therein are classified and reported as follows:

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

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of The Literacy Alliance, Inc. and/or the passage of time. 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. Support that is restricted by the donor is reported as an increase in net unrestricted assets if the restriction expires or is met in the reported period in which the support is recognized.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by The Literacy Alliance, Inc. Generally, the donors of these assets permit The Literacy Alliance, Inc. to use all or part of the income earned on any related investments for general or specific purposes. The Board of The Literacy Alliance, Inc. elected to direct endowment funds to the Community Foundation of Greater Fort Wayne (See Note 8).

Financial Statement Presentation - The organization has adopted FASB ASC 958-210-45-8 (prior authoritative literature Statement of Financial Accounting Standards (SFAS) No. 117, “*Financial Statements of Not-for-Profit Organizations*”). Under FASB ASC 958-210-45-8, 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Promises to Give (Continued) - 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 promises made.

Contributions - The organization has adopted FASB ASC 958-605-05 (prior authoritative literature SFAS No. 116, "*Accounting for Contributions Received and Contributions Made*"). In accordance with FASB ASC 958-605-05, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributed Services and Gifts in Kind - During the years ended August 31, 2010 and 2009, 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 \$19,420 and \$13,900 for the years ended August 31, 2010 and 2009, respectively.

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.

Uncollectible Accounts Receivable - Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Income Taxes (Continued) - The organization has adopted FASB ASC 710-10-25 (prior authoritative literature FIN 48 – *Accounting for Uncertainty of Income Taxes*), and determined no material unrecognized tax benefits or liabilities exist as of August 31, 2010. The adoption of FASB ASC 740-10-25 did not impact the organization's financial position or results of operations. If applicable, the organization will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of August 31, 2010, the organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The organization does not anticipate any significant changes to unrecognized income tax benefits over the next year.

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.

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.

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 \$26,144 and \$20,200 as of August 31, 2010 and 2009, 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. Insured limits were temporarily increased from \$100,000 to \$250,000 on October 3, 2008. The standard coverage limit will return to \$100,000 on January 1, 2014. The organization had deposits in excess of the federally insured limits at various times throughout the year. However, at August 31, 2010 and 2009, the organization had no uninsured cash balances.

NOTE 4 - Concentrations

An operating grant and a grant restricted for use in the Family Literacy Program from a single donor amounted to \$175,000 and \$185,000 for the years ended August 31, 2010 and 2009, respectively. This amounted to 31.2% and 28.2% of total support and revenue for the years ended August 31, 2010 and 2009, respectively.

NOTE 5 – Line of Credit

The organization has obtained a short-term line of credit from Star Financial Bank in the amount of \$75,000. The note calls for interest at a rate of prime plus .75%, is secured by substantially all of the organization's assets and is due on November 1, 2010. There was no balance due on this line of credit as of August 31, 2010 or 2009.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - Leases

The organization previously leased office space at a rate of \$2,045 per month on a fixed term lease that expired December 31, 2009. The organization is continuing to lease the office space on a month-to-month basis at a rate of \$2,045 per month.

NOTE 7 - 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:

	Balance 8/31/2009	Additions	Reductions	Balance 8/31/2010
Community Foundation of Greater Fort Wayne -				
Technology and Equipment	\$ 665	\$	\$ 665	\$ -
Operating Support	18,750	30,000	26,932	21,818
Verizon - small group tutoring	14,468		14,468	-
Charles Kuhne Foundation -				
Books and Child Care	12,692		12,692	-
Comcast Foundation	21,673		21,673	-
GED Graduation	1,500		1,500	-
Lincoln Foundation - Family Literacy	63,755		55,465	8,290
Foellinger Foundation - Strengthening Grant	5,381	4,471	4,850	5,002
PHP - Newsletter sponsor	960			960
Rally to Read	1,000		1,000	-
Rifkin Family Foundation - Nov. Event	-	5,000		5,000
Dollar General - Small Group Adult Classes	-	7,500	2,931	4,569
Hayner Foundation - Childcare Grant	-	8,000	1,560	6,440
Allen County Local Education - Rally to Read	-	1,000		1,000
Our Lady of Victory - Burmese Learning Center	1,349		1,349	-
	<u>\$ 142,193</u>	<u>\$ 55,971</u>	<u>\$ 145,085</u>	<u>\$ 53,079</u>

NOTE 8 - 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, 2010 and 2009, the balance in the Foundation amounted to \$39,717 and \$37,487, respectively.

Additionally, the Community Foundation of Greater Fort Wayne holds investment assets with a value of \$12,879 and \$11,053 as of June 30, 2010, and 2009, respectively, for the benefit of the Organization for which they have retained variance power. These investments are not recorded as assets of the Organization.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - Investment - Community Foundation of Greater Fort Wayne (Continued)

Net investment income includes interest on deposit accounts and consisted of the following:

	Year ended August 31	
	2010	2009
Interest income	\$ 3,016	\$ 4,504
Realized losses	(1,368)	(3,023)
Unrealized gains (losses)	5,132	(7,525)
Investment management fees	(229)	(241)
Total	<u>\$ 6,551</u>	<u>(\$ 6,285)</u>

NOTE 9 – Employee Benefits

The organization has adopted an Internal Revenue Code 403(b) retirement savings plan for substantially all employees. All contributions to the plan are made by the employees through salary deferrals. The plan does not provide for contributions from The Literacy Alliance.

NOTE 10 – Fair Value of Financial Instruments

FASB ASC 820-10-50-1 (prior authoritative literature SFAS No. 157, “*Fair Value Measurements*” as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by The Literacy Alliance, Inc. impacted by this pronouncement include the investments held at market value.

FASB ASC 820-10-50-1 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of input described below:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – Fair Value of Financial Instruments (Continued)

Fair value of financial instruments as of August 31, 2010 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Community Foundation of Greater Fort Wayne	\$	\$	\$ 39,717

Fair value of financial instruments as of August 31, 2009 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Community Foundation of Greater Fort Wayne	\$	\$	\$ 37,487

The table below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended August 31, 2010:

	<u>Unobservable Inputs (Level 3)</u>
Beginning Balance - September 1, 2009	\$ 37,487
Total gains or losses (realized/unrealized) included in earnings:	
Interest and dividend income on securities	1,342
Unrealized gains	5,132
Realized losses on sale of securities	(1,368)
Investment fees	(229)
Transfers out	(2,647)
Ending Balance - August 31, 2010	\$ 39,717

NOTE 11 – Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 12, 2010, the date the financial statements were available to be issued.