

***LITERACY COUNCIL OF NORTHERN
VIRGINIA, INC.***

FINANCIAL STATEMENTS

JUNE 30, 2011



**Halt Buzas &
Powell, LTD**

CERTIFIED PUBLIC ACCOUNTANTS • MANAGEMENT CONSULTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
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We have audited the accompanying statement of financial position of Literacy Council of Northern Virginia, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Literacy Council of Northern Virginia, Inc.'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 Literacy Council of Northern Virginia, Inc.'s 2010 financial statements and, in our report dated September 08, 2010, 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 Council of Northern Virginia, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Halt, Buzas & Powell, Ltd.

Alexandria, Virginia
November 03, 2011

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,698	\$ 122,496
Accounts receivable	14,089	2,069
Grants receivable	73,121	42,242
Inventory	19,498	21,153
Prepaid expenses	5,167	5,131
Total current assets	118,573	193,091
Deposits	511	511
Investments	853,947	768,086
Property and equipment, net	11,179	16,311
Total assets	\$ 984,210	\$ 977,999
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 10,782	\$ 961
Accrued payroll	11,737	8,280
Accrued vacation	15,886	14,411
Accrued payroll liabilities	1,564	8,651
Total current liabilities	39,969	32,303
Net assets:		
Unrestricted	889,885	855,531
Temporarily restricted	54,356	90,165
Total net assets	944,241	945,696
Total liabilities and net assets	\$ 984,210	\$ 977,999

See notes to financial statements

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(with summarized financial information for 2010)

	<u>2011</u>			<u>2010</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Revenues:				
Contributions	\$ 319,519	\$ 25,000	\$ 344,519	\$ 488,979
Grant revenue	377,985	-	377,985	293,326
Contributed services and materials	820,979	-	820,979	822,928
Special fundraising events	25,995	5,000	30,995	24,368
Workshop and student fees	61,316	-	61,316	61,971
Sales	405	-	405	2,753
Investment gain	163,333	-	163,333	105,968
Loss on disposal of assets	-	-	-	(2,132)
Net assets released from restrictions:				
Program expenses	<u>65,809</u>	<u>(65,809)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,835,341</u>	<u>(35,809)</u>	<u>1,799,532</u>	<u>1,798,161</u>
Expenses:				
Program services	<u>1,628,699</u>	<u>-</u>	<u>1,628,699</u>	<u>1,601,761</u>
Support services:				
General and administrative	109,947	-	109,947	109,244
Fundraising	<u>62,341</u>	<u>-</u>	<u>62,341</u>	<u>60,464</u>
Total support services	<u>172,288</u>	<u>-</u>	<u>172,288</u>	<u>169,708</u>
Total expenses	<u>1,800,987</u>	<u>-</u>	<u>1,800,987</u>	<u>1,771,469</u>
Increase (decrease) in net assets	34,354	(35,809)	(1,455)	26,692
Net assets, beginning of year	<u>855,531</u>	<u>90,165</u>	<u>945,696</u>	<u>919,004</u>
Net assets, end of year	<u>\$ 889,885</u>	<u>\$ 54,356</u>	<u>\$ 944,241</u>	<u>\$ 945,696</u>

See notes to financial statements

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2011

(with summarized financial information for 2010)

	2011			2010	
	Program services	General and administrative	Fundraising	Total	Total
Advertising	\$ 893	\$ 96	\$ 67	\$ 1,056	\$ 180
Depreciation	5,893	1,152	226	7,271	9,652
Dues and memberships	920	114	74	1,108	749
Employee benefits	21,806	2,424	1,666	25,896	24,018
Events	3,205	317	232	3,754	11,430
Insurance	3,421	378	260	4,059	4,108
Payroll taxes	47,308	5,259	3,614	56,181	52,743
Postage and shipping	3,436	2,821	1,571	7,828	9,543
Printing and publications	11,594	140	261	11,995	11,978
Professional fees	37,743	4,408	2,953	45,104	45,644
Program books & supplies	34,692	-	200	34,892	37,317
Recruitment	1,764	217	141	2,122	2,142
Repairs and maintenance	3,696	723	141	4,560	4,560
Rent	72,058	14,092	2,756	88,906	84,924
Salaries	498,445	66,977	45,947	611,369	590,681
Salaries - AmeriCorps	102,165	-	-	102,165	90,494
Supplies	15,292	1,632	1,146	18,070	13,658
Telephone	3,319	371	254	3,944	6,336
Travel	7,782	205	360	8,347	7,098
In-kind volunteer tutoring and teaching services	717,485	-	-	717,485	722,487
Other expenses	5,932	664	472	7,068	2,149
AmeriCorps Expenses	8,353	-	-	8,353	8,452
Student incentives	21,497	-	-	21,497	25,554
Investment fees	-	7,957	-	7,957	5,572
Total expenses	<u>\$ 1,628,699</u>	<u>\$ 109,947</u>	<u>\$ 62,341</u>	<u>\$ 1,800,987</u>	<u>\$ 1,771,469</u>

See notes to financial statements.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ <u>(1,455)</u>	\$ <u>26,692</u>
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Depreciation	7,271	9,652
Net realized and unrealized gain on investments	(138,891)	(85,140)
Loss on disposal of assets	-	2,133
Decrease (increase) in assets:		
Accounts receivable	(12,019)	464
Grants receivable	(30,879)	17,157
Inventory	1,655	(446)
Prepaid expenses	(36)	3,068
Deposits	-	(511)
Increase (decrease) in liabilities:		
Accounts payable	9,820	(8,411)
Accrued payroll	3,457	2,770
Accrued vacation	1,475	(14)
Accrued payroll liabilities	<u>(7,086)</u>	<u>(8,587)</u>
Total adjustments	<u>(165,233)</u>	<u>(67,865)</u>
Net cash used in operating activities	<u>(166,688)</u>	<u>(41,173)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(2,139)	(683)
Purchases of investments	(43,900)	(60,549)
Proceeds from sales of investments	<u>96,929</u>	<u>105,215</u>
Net cash provided by investing activities	<u>50,890</u>	<u>43,983</u>
Net (decrease) increase in cash and cash equivalents	(115,798)	2,810
Cash and cash equivalents, beginning of year	<u>122,496</u>	<u>119,686</u>
Cash and cash equivalents, end of year	\$ <u>6,698</u>	\$ <u>122,496</u>

See notes to financial statements

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. Organization

The Literacy Council of Northern Virginia, Inc. (the Council) is an educational organization founded in 1962 to recruit and train volunteers to tutor adults in the Northern Virginia community who need to develop their basic reading, writing, and English speaking skills.

2. Summary of significant accounting policies

Basis of accounting

The financial statements are prepared on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred.

Basis of presentation

The Council has presented its financial statements in accordance with *U.S. Generally Accepted Accounting Principles*. Under those principles, the Council is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets represents the expendable resources that are available for operations at management's discretion.

Temporarily Restricted Net Assets represents resources restricted by donors as to purpose or by the passage of time.

Permanently Restricted Net Assets represent resources whose use by the Council is limited by donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by action of the Council. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

The Council has no permanently restricted net assets at June 30, 2011 and 2010.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Comparative financial statements

These financial statements include summarized comparative prior-year information in the statement of activities. That information is not presented by net asset class and does not contain sufficient detail to conform with generally accepted accounting principles. Therefore, this information should be read in conjunction with the Council's financial statements for the year ended June 30, 2010.

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 and their functional allocation during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Council classifies all highly liquid investments with an original maturity of three months or less as cash equivalents. At June 30, 2011 and 2010, cash and cash equivalents included checking account deposits, savings account deposits and a money market account.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances at year-end. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to allowance for doubtful accounts and a credit to accounts receivable. No allowance for uncollectible accounts receivables has been established since management believes all receivables, including grants receivables, are fully collectible at June 30, 2011.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Investments

Investments are reported at their market values based on the quoted price. Donated securities and other donated items held as investments are recorded at their fair market value on the date of the donation. The gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets, unless the income or loss is restricted temporarily or permanently by donor restrictions or law.

Inventory

Inventory consists principally of textbooks. Inventory is stated at the lower of cost or market by using the average cost method.

Property and equipment

Property and equipment are reflected in the financial statements at cost, net of accumulated depreciation. Donated property and equipment is stated at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

Library	3-5 years
Office equipment	3 years

The Council's policy is to capitalize major additions and improvements over \$1,000, and all library books. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Fair value measurements

The Financial Accounting Standards Board (FASB) sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. The standard applies to all assets and liabilities that are being measured and reported on a fair value basis. The standard requires disclosure that establishes a framework for measuring fair value in *U.S. Generally Accepted Accounting Principles* and expands disclosure about fair value measurements. This standard enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The standard requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 - Quoted market prices in active markets for identical securities or liabilities
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3 - Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the Council performs a detailed analysis of the assets and liabilities that are subject to the standard set forth by FASB. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no level 3 inputs for any assets held by the Council at June 30, 2011 and 2010.

Income taxes

The Council is exempt from Federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code on any net income derived from activities related to its exempt purpose. The Council is taxed on net income from unrelated business activities. For the years ended June 30, 2011 and 2010, the Council did not generate any net income from unrelated business activities.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Contributions

Unconditional promises to give are recorded as contributions at their net realizable value in the year in which the promise is made. All contributions are available for unrestricted purposes unless specifically restricted by the donor. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

The Council reports grants, contracts, and gifts of cash and other assets as restricted support (temporarily restricted or permanently restricted, depending on the nature of the restriction) if they are received with donor stipulations that limit the use of the assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, 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 unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Grant revenue

The Council records grant revenue over the period of the award and the provisions of the grant determine the timing of the revenue recognition. Federal grant revenue is recognized as work is performed. This occurs when expenses are incurred that can be charged against the contracts. Cash received in advance of expenditures is treated as deferred revenue until such time as expenditures are incurred which can be charged against the contract.

In-kind contributions

The Council receives donated services as a significant and integral part of its efforts. The Council records donated services as both revenue and expense. The Council also receives other services which are neither recorded as revenue, nor expense and are not included in the financial statements. For the years ended June 30, 2011 and 2010, the number of such hours contributed was 7,943 and 3,059, respectively.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Volunteers provide the majority of all the tutoring services provided by the Council along with other classroom services. For the years ended June 30, 2011 and 2010, the number of hours contributed was 32,569 and 34,519, respectively. These hours are multiplied by the value of volunteer time based on the Virginia Employment Commission average hourly earnings. The Virginia average hourly value of volunteer time for the years ended June 30, 2011 and 2010 was \$22.03 and \$20.93, respectively. The value of these services for the years ended June 30, 2011 and 2010 was \$717,485 and \$722,487, respectively.

The Council receives 4,050 square feet of donated space from the county government in which to operate. The space was valued at \$20 per square foot for the years ended June 30, 2011 and 2010. The Council also received 208 square feet of donated space underwritten by an organization from which the Council leases office space in Herndon, VA. The value of the underwritten space was \$6 per square foot totaling \$1,278 for the year ended June 30, 2011. The total value of the donated space for the years ended June 30, 2011 and 2010 was \$82,279 and \$81,000.

The Council also receives donated professional services, equipment, supplies and other items which are recorded at fair market value on the date of donation. The value of these donated services and items totaled \$19,200 and \$19,442 for the years ended June 30, 2011 and 2010, respectively. The Council also received \$2,016 in donated stocks for the fiscal year ended June 30, 2011.

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 activities. Accordingly, certain costs have been allocated among programs and supporting services benefited based on estimates made by management.

Reclassification

Certain prior year reclassifications have been made to remain consistent with current year classifications.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

3. Investments

Investments are comprised of the following as of June 30:

	<u>2011</u> <u>Cost</u>	<u>2011</u> <u>Market</u>	<u>2010</u> <u>Cost</u>	<u>2010</u> <u>Market</u>
Mutual funds	\$ 220,006	\$ 335,334	\$ 278,200	\$ 328,497
Equity	273,095	330,177	241,332	234,998
Bonds	<u>178,873</u>	<u>188,436</u>	<u>203,778</u>	<u>204,591</u>
Total investments	<u>\$ 671,974</u>	<u>\$ 853,947</u>	<u>\$ 723,310</u>	<u>\$ 768,086</u>

Investment income is comprised of the following for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 24,442	\$ 20,828
Unrealized gain	138,891	72,913
Realized gain	<u>-</u>	<u>12,227</u>
Total investment income	<u>\$ 163,333</u>	<u>\$ 105,968</u>

The table below summarizes the level of inputs used to determine fair value of each major type of investment at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 335,334	\$ -	\$ -	\$ 335,334
Equity	330,177	-	-	330,177
Bonds	<u>-</u>	<u>188,436</u>	<u>-</u>	<u>188,436</u>
Total investments	<u>\$ 665,511</u>	<u>\$ 188,436</u>	<u>\$ -</u>	<u>\$ 853,947</u>

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

The table below summarizes the level of inputs used to determine fair value of each major type of investment at June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 328,497	\$ -	\$ -	\$ 328,497
Equity	234,998	-	-	234,998
Bonds	<u>50,338</u>	<u>154,253</u>	<u>-</u>	<u>204,591</u>
Total investments	<u>\$ 613,833</u>	<u>\$ 154,253</u>	<u>\$ -</u>	<u>\$ 768,086</u>

4. Property and equipment

The following is a summary of property and equipment held as of June 30:

	<u>2011</u>	<u>2010</u>
Library	\$ 20,389	\$ 18,249
Office equipment	<u>30,903</u>	<u>59,001</u>
Subtotal	51,292	77,250
Accumulated depreciation	<u>(40,113)</u>	<u>(60,939)</u>
Total	<u>\$ 11,179</u>	<u>\$ 16,311</u>

Depreciation of property and equipment for the years ended June 30, 2011 and 2010 was \$7,271 and \$9,652, respectively.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

5. Commitments and contingencies

Operating leases

In October 2008, the Council entered into two 57 month lease agreements for a postage meter and scale. Leases require monthly rent payments of \$141. Rent expense for the year ended June 30, 2011 and 2010 was \$1,693 and \$1,572, respectively.

In January 2010, the Council entered into a 35 month lease agreement for office space in Herndon, Virginia. The lease requires a monthly rent payment of \$577. Rent expense for the year ended June 30, 2011 and 2010 was \$7,905 and \$3,924, respectively.

Aggregate future minimum lease payments are as follows:

For fiscal years ending in:	<u>Equipment leases</u>	<u>Office space</u>
2012	\$ 1,692	\$ 7,344
2013	<u>1,692</u>	<u>7,564</u>
Total	<u>\$ 3,384</u>	<u>\$ 14,908</u>

6. Temporarily restricted net assets

At June 30, 2011 and 2010, temporarily restricted net assets were available for the following programs:

	<u>2011</u>	<u>2010</u>
Beverly M. Newport memorial student scholarship fund	\$ 49,356	\$ 45,854
Verizon Sponsorship - Reading: a Family Affair	5,000	-
General purpose - time restricted	<u>-</u>	<u>44,311</u>
Total temporarily restricted net assets	<u>\$ 54,356</u>	<u>\$ 90,165</u>

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

7. Net assets released from restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose. Net assets released from restriction during the years ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Beverly M. Newport memorial student scholarship fund	\$ 21,498	\$ 25,554
Family learning program	-	1,169
General purpose - time restricted	<u>44,311</u>	<u>55,410</u>
Total net assets released from restrictions	<u>\$ 65,809</u>	<u>\$ 82,133</u>

8. Significant concentration

The Council receives a significant portion of its revenue from government agencies in the form of grant awards. During the year ended June 30, 2011, the Council received \$186,408 from such sources. The amount constituted approximately 10% of total revenue for the year ended June 30, 2011. There were no significant concentrations for the year ended June 30, 2010.

9. Subsequent events

The Council has evaluated subsequent events through November 03, 2011, which is the date the financial statements were available to be issued. Based on management's evaluation, no changes need to be made or additional disclosures added for these financial statements.