FIRST BOOK

FINANCIAL STATEMENTS

DECEMBER 31, 2011

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FINANCIAL STATEMENTS
(AUDITED)

DECEMBER 31, 2011

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Mendelson & Mendelson
CERTIFIED PUBLIC ACCOUNTANTS A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of First Book
Washington, D.C.

We have audited the accompanying statement of financial position of First Book (a nonprofit organization) as of December 31, 2011, 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.

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 First Book as of December 31, 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.

Potomac, Maryland
April 24, 2011

Mendelson & Mendelson

FIRST BOOK

STATEMENT OF FINANCIAL POSITION
(AUDITED)

DECEMBER 31, 2011

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 3,879,677
Other receivable	58,579
Investments	5,437
Inventory	20,861,651
TOTAL CURRENT ASSETS	24,805,344
PROPERTY AND EQUIPMENT	
Furniture and equipment	52,927
Software	103,927
	156,854
Less accumulated depreciation and amortization	(121,909)
TOTAL PROPERTY AND EQUIPMENT	34,945
OTHER ASSETS	
Deposits	8,394
TOTAL ASSETS	$ 24,848,683

The accompanying notes are an integral part of the financial statements.

FIRST BOOK

STATEMENT OF FINANCIAL POSITION (CONTINUED)
(AUDITED)

DECEMBER 31, 2011

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 499,173
Pension payable	136,023
Accrued expenses	73,620
TOTAL CURRENT LIABILITIES	708,816
NET ASSETS	
Unrestricted	22,481,759
Temporarily restricted	1,658,108
Permanently restricted	-
TOTAL NET ASSETS	24,139,867
TOTAL LIABILITIES AND NET ASSETS	$ 24,848,683

The accompanying notes are an integral part of the financial statements.

FIRST BOOK

STATEMENT OF ACTIVITIES
(AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2011

REVENUE AND SUPPORT	
SUPPORT	
Contributed goods and services	$ 88,038,990
Public Support	4,746,702
RTL partnership income	81,921
	92,867,613
REVENUE	
Interest and dividend income	7,351
Realized gain on investments	7
Realized loss on currency exchange	(6,161)
Unrealized loss on investments	(621)
Loss on disposal of assets	(2,568)
	(1,992)
NET ASSETS RELEASED FROM RESTRICTIONS	6,025,394
TOTAL UNRESTRICTED SUPPORT AND REVENUE	98,891,015
EXPENSES	
Program services	90,578,526
Management and general	1,460,361
Fund-raising	912,535
	92,951,422
CHANGES IN UNRESTRICTED NET ASSETS	$ 5,939,593

The accompanying notes are an integral part of the financial statements.

FIRST BOOK

STATEMENT OF ACTIVITIES (CONTINUED)
(AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2011

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	$ 6,112,368
Net assets released from restrictions	(6,025,394)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	86,974
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	-
CHANGES IN NET ASSETS	6,026,567
NET ASSETS AT BEGINNING OF YEAR	18,113,300
NET ASSETS AT END OF YEAR	$ 24,139,867

The accompanying notes are an integral part of the financial statements.

FIRST BOOK

STATEMENT OF FUNCTIONAL EXPENSES (AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services	Management and General	Fund-raising	Total Expenses
Bank charges	$ 72,358	$ 16,707	$ 2,158	$ 91,223
Consulting	77,139	51,426	-	128,565
Contract labor	63,838	40,000	-	103,838
Depreciation and amortization	3,044	1,313	893	5,250
Donated books	81,653,257	-	-	81,653,257
Dues and subscriptions	96,993	-	-	96,993
Equipment and technology	140,894	60,730	41,296	242,920
Fees, licenses and permits	11,756	5,067	3,446	20,269
Insurance	16,824	7,251	4,931	29,006
Internet	1,326	-	-	1,326
Meetings and conferences	59,549	-	-	59,549
Miscellaneous	8,284	3,571	2,428	14,283
Office supplies	26,358	11,361	7,726	45,445
Payroll	2,058,672	887,359	603,404	3,549,435
Payroll taxes and employee benefit	438,072	188,825	128,400	755,297
Payroll service	3,598	1,551	1,054	6,203
Postage and shipping	1,229,390	-	-	1,229,390
Printing and publications	40,055	14,641	7,492	62,188
Professional fees	-	72,423	-	72,423
Program expenses - books	3,336,440	-	-	3,336,440
Program expenses - other	78,086	-	-	78,086
Rent	216,670	89,946	61,614	368,230
Taxes	18,334	-	-	18,334
Telephone	65,524	8,190	8,190	81,904
Travel and lodging	158,012	-	39,503	197,515
Warehouse costs	704,053	-	-	704,053
TOTAL EXPENSES	$ 90,578,526	$ 1,460,361	$ 912,535	$ 92,951,422

The accompanying notes are an integral part of the financial statements.

FIRST BOOK

STATEMENT OF CASH FLOWS (AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Flows From Operating Activities:	
Changes in net assets	$ 6,026,567
Adjustments to reconcile net assets to net cash provided by (used in) operating activities:	
Realized gain on investments	5,250
Realized gain on investments	(7)
Unrealized loss on investments	621
Loss on disposal of assets	2,568
Contributed investments	(26,901)
(Increase) Decrease in assets:	
Grants receivable	166,854
Other receivable	62,811
Inventory	(7,124,563)
Deposits	(8,394)
Increase (Decrease) in liabilities:	
Accounts payable	(37,799)
Pension payable	136,023
Accrued expenses	3,238
Net Cash Provided By (Used In) Operating Activities	(793,732)
Cash Flows From Investing Activities:	
Proceeds from sale of investments	53,992
Purchase of furniture and equipment	(20,174)
Net Cash Provided By (Used In) Investing Activities	33,818
Cash Flows From Financing Activities:	-
NET INCREASE (DECREASE) IN CASH	(759,914)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,639,591
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,879,677

The accompanying notes are an integral part of the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

First Book is a not-for-profit corporation formed for the purpose of providing children from low-income families the opportunity to read and own their first new books. This is done by working with existing literacy programs to distribute new books to children who, for economic reasons, have little or no access to books.

B. Method of Accounting

The Organization reports in compliance with Accounting Standards Codification (ASC) 958, "Financial Statements of Not-for-Profit Entities". Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

The Organization reports contributions in compliance with ASC 958, specifically "Accounting for Contributions Received and Contributions Made." Under this standard, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a contribution by credit card or check. 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.

C. Presentation

The financial statements of the Organization have been prepared utilizing the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

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D. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less, when purchased, to be cash equivalents.

Though the Organization maintained funds in excess of $250,000 in various financial institutions at December 31, 2011, Section 343 of the Dodd-Frank Act amends the Federal Deposit Insurance Act to include noninterest-bearing transaction accounts as a new temporary deposit insurance account category. All funds held in noninterest-bearing transaction accounts will be fully insured, without limitation, from December 31, 2011, through December 31, 2012.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Accounts Receivable

The Organization utilizes a third-party processor for collections of their online contributions. The receivable amount represents the amount that the processor has yet to forward to the Organization as of December 31, 2011. These amounts are reported at their net realizable value. Because the amount is deemed fully collectible the allowance for doubtful accounts is zero.

F. Inventory

Inventories are stated at their cost or publisher's stated value on the date of their contribution to/or purchase by the Organization. The inventory at December 31, 2011 consisted of $18,190,746 of books donated and $2,670,905 of books purchased. Revenue from donated books is recognized at the time of the donation. Expense is recognized at the time of distribution.

G. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. All investments are deemed to be Level 1 under the Fair Value Measurements and are immaterial to the financial statements; therefore no reconciliation has been presented.

H. Property and Equipment

The cost of property and equipment, in excess of $1,000, is depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation and amortization expense is included in the statement of functional expenses.

Maintenance and repairs are charged to and allocated to the functional expenses when incurred. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in general and administrative costs.

I. Promises to Give

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Contributed Goods and Services

The Organization receives donated books from a variety of publishers and booksellers which are distributed to children through the Organization's programs. Contributed goods are reflected in the financial statements at the publisher's stated value of the goods.

The Organization receives the occasional use of warehouse space from various other organizations for the storage of books prior to their distribution. The value of this donation is reflected in the financial statements at the donor's stated fair rental value of the space.

Volunteers provided services without charge which were not recognized as revenues. It was not practicable to place a value on these services.

Contributions of donated non-cash assets are recorded at their fair values in the year received.

K. Pension

The Organization sponsors a defined contribution plan with a 401(k) and 403(b) cash or deferred tax option. The plan covers all full-time employees, not considered leased employees, who have completed one year of service, are employed on the last day of the year, and completed 1,000 hours of service. As of January 1, 2011 the Organization, on behalf of each eligible participant, according to employee class, makes contributions to the plan. The pension expense for the years ended December 31, 2011 was $157,053. Participants become 50% vested in contributions after the completion of two years of employment and 100% vested after the completion of the third year of employment.

L. 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 the programs and supporting services benefited based on direct association or an allocation based on payroll.

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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 during the reporting period. Actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Income Taxes

The Organization is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code and, therefore, has made no provision for federal income taxes in the accompanying financial statements. Under ASC 740-10 (formerly FIN 48 Accounting for Uncertainty in Income Taxes) a tax position includes, among other things, (a) a decision not to file a tax return (b) an allocation or a shift of income between jurisdictions (c) the characterization of income or a decision to exclude reporting taxable income in a tax return (d) a decision to classify a transaction, entity, or other position in a tax return as tax exempt and (e) an entity's status, including its status as a tax-exempt not-for-profit entity. This change in U. S. generally accepted accounting principles was first effective for the Organization for the year ended December 31, 2010 and was applied retrospectively as of the beginning of the year. Based on its interpretation of the requirements of ASC 740-10, management believes that the Organization has no uncertain tax positions that qualify for either recognition or disclosure. Accordingly, the application of this standard had no material effect on the Organization's financial statements.

O. Fair Value Measurements

ASC 820 (formerly FASB Statement of Financial Accounting Standards No. 157, Fair Value Measurements) defines how fair value should be determined for the invested assets, establishes a framework for measuring fair value, and requires statement preparers to disclose information about their fair value determinations in their financial statements. The three levels of fair value measurement under ASC 820 are described below:

Level 1: Use of unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Use of quoted prices in markets that are not considered to be active, or financial instruments for which all significant inputs are observable, either directly or indirectly(there are no level two inputs);

Level 3: Use of prices or valuations that require inputs that are both significant to the fair value measurement and unobservable (there are no level three inputs).

NOTE 2 RESTRICTED NET ASSETS

Temporarily restricted net assets consist of cash available for the following purposes:

Corporate contributions for distribution of donated books	$ 350,000
Corporate contributions for 2012 programs	20,000
Purchase of books for Marketplace Recipient Groups	1,288,108
Total temporarily restricted net assets	$ 1,658,108

There are no permanently restricted net assets.

NOTE 3 COMMITMENTS

A. The Organization was obligated on a five year lease for 8,446 square feet of office space. On November 5, 2010 a lease amendment was signed extending the term of the lease and expanding the premises to include 2,618 additional square feet. The lease amendment for 11,064 square feet of office space commenced on December 1, 2011 and expires on July 31, 2016.

B. On May 13, 2011 the Organization signed a lease for 3,098 square feet of office space. The commencement date is September 1, 2011, which the Organization will receive the first two months rent free, with the first rent payment being made in November 2011. The lease expires on August 31, 2014.

Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year as of December 31, 2011 for each of the next five years are:

Year Ending December 31,	Amount
2012	$ 381,487
2013	393,067
2014	398,194
2015	397,382
2016	235,571
Total minimum future rental payments	$ 1,805,701

NOTE 4 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is April 24, 2012, which is the date on which the financial statements were available to be issued.