FIRST BOOK

FINANCIAL STATEMENTS

DECEMBER 31, 2009

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Mendelson & Mendelson
CERTIFIED PUBLIC ACCOUNTANTS A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITORS' 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, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of First Book'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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of First Book's internal control over financial reporting. Accordingly, we express no such opinion. 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 statement of financial position referred to above presents fairly, in all material respects, the financial position of First Book as of December 31, 2009 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.

April 20, 2010

Mendelson + Mendelson

FIRST BOOK

STATEMENT OF FINANCIAL POSITION
(AUDITED)

DECEMBER 31, 2009

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 3,337,921
Cash, temporarily restricted	104,546
Grants receivable	254,850
Other receivable	119,958
Investments	32,817
Deposits	34,665
Inventory	6,462,687
TOTAL CURRENT ASSETS	10,347,444
PROPERTY AND EQUIPMENT	
Furniture and equipment	161,807
Less accumulated depreciation	< 150,492>
TOTAL PROPERTY AND EQUIPMENT	11,315
OTHER ASSETS	
Software, net of accumulated amortization	-
TOTAL OTHER ASSETS	-
TOTAL ASSETS	$ 10,358,759

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

FIRST BOOK

STATEMENT OF FINANCIAL POSITION (CONTINUED)
(AUDITED)

DECEMBER 31, 2009

LIABILITIES

CURRENT LIABILITIES	
Accounts payable	$ 579,322
Accrued expenses	54,316
Current maturities of long-term debt	1,200,000
TOTAL CURRENT LIABILITIES	1,833,638
LONG-TERM LIABILITIES	
Long-term debt - net of current maturities	-
TOTAL LIABILITIES	1,833,638
NET ASSETS	
Unrestricted	8,165,725
Temporarily restricted	359,396
Permanently restricted	-
TOTAL NET ASSETS	8,525,121
TOTAL LIABILITIES AND NET ASSETS	$ 10,358,759

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

FIRST BOOK

STATEMENT OF ACTIVITIES
(AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2009

REVENUE AND SUPPORT	
Support	
Contributed goods and services	$ 36,791,996
Public Support	4,159,912
RTL partnership income	294,104
Net assets released from restrictions	3,513,240
TOTAL SUPPORT	44,759,252
Revenue	
Interest and dividend income	17,897
Realized loss on investments	< 75>
Realized gain on currency exchange	8,405
Unrealized gain on investments	3,936
TOTAL REVENUE	30,163
TOTAL UNRESTRICTED SUPPORT AND REVENUE	44,789,415
EXPENSES	
Program services	41,615,322
Management and general	655,010
Fund-raising	618,255
TOTAL EXPENSES	42,888,587
INCREASE IN UNRESTRICTED NET ASSETS	$ 1,900,828

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

FIRST BOOK

STATEMENT OF ACTIVITIES (CONTINUED)
(AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2009

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	$	3,494,157
Net assets released from restrictions	<	3,513,240>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<	19,083>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		-
INCREASE IN NET ASSETS		1,881,745
NET ASSETS AT BEGINNING OF YEAR		6,643,376
NET ASSETS AT END OF YEAR	$	8,525,121

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

FIRST BOOK

STATEMENT OF FUNCTIONAL EXPENSES (AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2009

EXPENSES	Program Services	Management and General	Fund-raising	Total Expenses
Bank charges	$ 43,442	$ 2,413	$ 2,413	$ 48,268
Consulting	1,408	2,815	2,815	7,038
Depreciation and amortization	3,398	589	544	4,531
Donated books	35,680,049	-	-	35,680,049
Dues and subscriptions	8,406	1,457	1,345	11,208
Equipment and technology	39,114	2,173	2,173	43,460
Fees, licenses and permits	9,612	534	534	10,680
Insurance	23,785	4,123	3,806	31,714
Interest	111,683	-	-	111,683
Internet	27,686	1,538	1,538	30,762
Meetings and conferences	20,470	3,548	3,275	27,293
Miscellaneous	2,412	418	386	3,216
Office supplies	26,074	1,449	1,449	28,972
Payroll	1,518,960	450,941	403,474	2,373,375
Payroll taxes and employee benefits	254,439	75,536	67,585	397,560
Payroll service	5,159	1,532	1,370	8,061
Postage and shipping	486,810	-	25,622	512,432
Printing and publications	16,465	4,877	4,357	25,699
Professional fees	32,413	5,618	5,186	43,217
Program expenses - books	2,553,510	-	-	2,553,510
Program expenses - other	48,941	-	-	48,941
Rent	311,899	92,595	82,848	487,342
Taxes	43,360	-	-	43,360
Telephone	54,233	2,854	-	57,087
Travel and lodging	143,168	-	7,535	150,703
Warehouse costs	148,426	-	-	148,426
TOTAL EXPENSES	$ 41,615,322	$ 655,010	$ 618,255	$ 42,888,587

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

FIRST BOOK

STATEMENT OF CASH FLOWS
(AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Flows From Operating Activities:		
Increase in net assets	$	1,881,745
Adjustments to reconcile net assets to net cash provided by operating activities:		
Depreciation and amortization		4,531
Realized loss on investments		75
Unrealized gain on investments	<	3,936>
Non-cash contributions	<	22,717>
Increase in contributed inventory	<	829,430>
Decrease in grants receivable		55,629
Decrease in other receivables		33,663
Increase in purchased inventory	<	335,930>
Increase in escrow deposit	<	536>
Increase in accounts payable		274,129
Decrease in accrued expenses	<	25,274>
Net Cash Provided By Operating Activities		1,031,949
Cash Flows From Investing Activities:		
Proceeds from sale of investments		1,963
Purchase of investments	<	11>
Purchase of fixed assets	<	2,988>
Net Cash Used In Investing Activities	<	1,036>
Cash Flows From Financing Activities:		
Curtailment of note payable	<	300,000>
Net Cash Used In Financing Activities	<	300,000>
NET INCREASE IN CASH		730,913

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

FIRST BOOK

STATEMENT OF CASH FLOWS (CONTINUED)
(AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2009

NET INCREASE IN CASH	730,913
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,711,554
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,442,467

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for interest	$ 104,039

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

First Book is a non-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.

Basis of Accounting

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

Inventory

Inventories are stated at their cost or publisher's stated value on the date of their contribution to or purchase by First Book. The inventory at December 31, 2009 consisted of $5,084,969 of books donated to First Book and $1,377,718 of books purchased by First Book. Revenue from donated books is recognized at the time of the donation. Expense is recognized at the time of distribution.

Property and Equipment

First Book follows the practice of capitalizing all expenditures for equipment in excess of $1,000. Depreciation is computed principally using the straight-line method over the estimated useful lives of the assets. Depreciation and amortization expense for the year ended December 31, 2009 was $4,531.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Contributed Goods and Services

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

First Book 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.

Income Tax Status

First Book is a non-profit organization which is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). First Book has no unrelated business income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

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

Investments

First Book has adopted SFAS No. 124, "Accounting for Certain Investments Held By Not-For-Profit Organizations." Under SFAS No. 124, 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.

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.

Pension

First Book sponsors a 401(k) and 403(b) cash or tax deferred profit sharing plan, covering all full-time employees.

Estimates

The preparation of financial statements 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 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

First Book has adopted Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements for 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. As permitted by the statement, the Organization does not use fund accounting.

Contributions

First Book has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

NOTE 2 LONG-TERM DEBT

Long-term debt consists of a term loan payable to Partners for the Common Good, Inc. (PCG). The loan matures December 12, 2010. The loan is for $1,500,000. Beginning January 12, 2008, interest only payments were payable monthly. Beginning January 12, 2009, quarterly principal payments are due in the amount of $75,000, plus monthly interest. A balloon payment of the outstanding balance is due on December 12, 2010. Interest is computed at a blended rate, with a minimum of 6.5% and a maximum of 9.5% (7.5% at December 31, 2009).	$ 1,200,000
Less current maturities included in current liabilities	< 1,200,000>
Total long-term debt	$ 0

NOTE 2 LONG-TERM DEBT (CONTINUED)

Following is maturity of long-term debt for the next year:

2010	$ 1,200,000

The loan payable to PCG is collateralized by personal property and fixtures with a book value of $10,358,759, including, but not limited to, all accounts, equipment, inventory, receivable and other property, specifically excluding any restricted purpose donations not subject to pledge as well as leasehold improvements.

In addition, PCG required that all monthly interest payments due during the first 12 months of the loan term be pre-funded by the Borrower from the proceeds of the loan, upon the closing of the loan, by the establishment of an Interest Reserve (the "Reserve"). The Reserve was established with enough funds to cover twelve months of interest due, calculated at the prevailing rate of interest on the date of closing. The funds are held by the Lender in an interest bearing account. If the reserve balance falls below a balance sufficient to pay the monthly interest due to Lender, the Lender has the right to fund any resulting interest reserve shortfall from any remaining loan principal balance not drawn by the Borrower at the time of the shortfall. If no loan principal balance is available at the time of any Reserve shortfall, First Book is required to make an additional interest payment to the Lender in the month of such shortfall. If, at the completion of the 12 month period, funds remain in the Reserve, the funds will be credited against the outstanding principal balance of the loan.

This loan also contains various covenants pertaining to minimum cash flow and working capital. First Book must maintain a minimum Debt Coverage Ratio at year-end of 1.20 to 1.00. First Book must also maintain a current ratio in excess of 1.50 to 1.00 at year end. As of December 31, 2009, First Book was in compliance with these covenants.

On April 19, 2010 the obligation to PCG was paid in full.

NOTE 3 RESTRICTED NET ASSETS

First Book reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or 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.

Temporarily restricted net assets consist of a grant receivable and cash available for the following purpose:

Purchase of books for donation	$ 254,850
Purchase of books by First Book Marketplace Recipient Groups	104,546
Total temporarily restricted net assets	$ 359,396

There are no permanently restricted net assets.

NOTE 4 CONCENTRATION OF CREDIT RISK

First Book currently holds cash accounts in two institutions substantially in excess of the FDIC protection limits of $250,000. First Book has not experienced any losses in such accounts. First Book's exposure to credit loss in the event of failure of these institutions is represented by the difference between the FDIC protection limit and the total amounts on deposit. Accounts held in excess of FDIC protection at December 31, 2009 were $1,916,456. All of the funds are held in sweep accounts invested daily in United States Government bonds.

NOTE 5 COMMITMENT

First Book was obligated on a five year lease for 8,446 square feet of office space. On May 7, 2008 a lease amendment was signed extending the term of the lease and expanding the premises to include approximately 1,618 additional square feet. The lease amendment for 10,064 square feet of office space commenced on November 15, 2008 and terminates on July 31, 2012.

Minimum future rental payments under the non-cancellable operating lease for each of the next four years are:

Year Ending December 31,	Amount
2010	$ 289,240
2011	340,481
2012	204,299
Total minimum future rental payments	$ 834,020