FIRST BOOK

FINANCIAL STATEMENTS

DECEMBER 31, 2010

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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 not-for-profit organization) as of December 31, 2010, 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 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, 2010 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 28, 2011

Mendelson & Mendelson

FIRST BOOK

STATEMENT OF FINANCIAL POSITION
(AUDITED)

DECEMBER 31, 2010

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 4,185,732
Cash, temporarily restricted	453,859
Grants receivable	166,854
Other receivable	121,390
Investments	33,167
Inventory	13,737,088
TOTAL CURRENT ASSETS	18,698,090
PROPERTY AND EQUIPMENT	
Furniture and equipment	175,061
Less accumulated depreciation	< 152,497>
TOTAL PROPERTY AND EQUIPMENT	22,564
OTHER ASSETS	
Software, net of accumulated amortization of $128,121	-
TOTAL OTHER ASSETS	-
TOTAL ASSETS	$ 18,720,654

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

FIRST BOOK

STATEMENT OF FINANCIAL POSITION (CONTINUED)
(AUDITED)

DECEMBER 31, 2010

LIABILITIES

CURRENT LIABILITIES	
Accounts payable	$ 536,972
Accrued expenses	70,382
TOTAL CURRENT LIABILITIES	607,354
LONG-TERM LIABILITIES	-
TOTAL LIABILITIES	607,354
NET ASSETS	
Unrestricted	16,542,166
Temporarily restricted	1,571,134
Permanently restricted	-
TOTAL NET ASSETS	18,113,300
TOTAL LIABILITIES AND NET ASSETS	$ 18,720,654

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

FIRST BOOK

STATEMENT OF ACTIVITIES
(AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2010

REVENUE AND SUPPORT	
Support	
Contributed goods and services	$ 29,541,955
Public Support	4,650,964
RTL partnership income	90,024
TOTAL SUPPORT	34,282,943
Revenue	
Interest and dividend income	9,902
Realized loss on investments	< 1,051>
Realized gain on currency exchange	1,378
Unrealized gain on investments	2,958
Other income	-
TOTAL REVENUE	13,187
Net assets released from restrictions	5,656,061
TOTAL UNRESTRICTED SUPPORT AND REVENUE	39,952,191
EXPENSES	
Program services	30,126,889
Management and general	799,576
Fund-raising	685,831
TOTAL EXPENSES	31,612,296
INCREASE IN UNRESTRICTED NET ASSETS	$ 8,339,895

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

FIRST BOOK

STATEMENT OF ACTIVITIES (CONTINUED)
(AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2010

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	$ 6,904,345
Net assets released from restrictions	< 5,656,061>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	1,248,284
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	-
INCREASE IN NET ASSETS	9,588,179
NET ASSETS AT BEGINNING OF YEAR	8,525,121
NET ASSETS AT END OF YEAR	$ 18,113,300

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

FIRST BOOK

STATEMENT OF FUNCTIONAL EXPENSES (AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2010

EXPENSES	Program Services	Management and General	Fund-raising	Total Expenses
Bank charges	$ 67,700	$ 3,761	3,761	$ 75,222
Consulting	115,928	49,457	-	165,385
Contract labor	47,125	31,417	-	78,542
Depreciation and amortization	1,504	261	241	2,006
Donated books	22,346,826	-	-	22,346,826
Dues and subscriptions	13,102	2,271	2,096	17,469
Equipment and technology	68,793	5,322	2,322	76,437
Fees, licenses and permits	15,259	848	848	16,955
Insurance	18,469	3,201	2,955	24,625
Interest	7,447	-	-	7,447
Internet	3,936	219	219	4,374
Meetings and conferences	16,060	2,784	2,570	21,414
Miscellaneous	4,765	846	781	6,392
Office supplies	21,959	1,220	1,220	24,399
Payroll	1,798,364	533,889	477,690	2,809,943
Payroll taxes and employee benefits	322,828	95,840	85,751	504,419
Payroll service	4,249	1,261	1,129	6,639
Postage and shipping	614,967	-	32,367	647,334
Printing and publications	34,657	-	-	34,657
Professional fees	48,001	8,320	7,680	64,001
Program expenses - books	3,632,414	-	-	3,632,414
Program expenses - other	91,127	-	-	91,127
Rent	215,250	55,443	55,443	326,136
Taxes	11,426	-	-	11,426
Telephone	61,101	3,216	-	64,317
Travel and lodging	166,406	-	8,758	175,164
Warehouse costs	377,226	-	-	377,226
TOTAL EXPENSES	$ 30,126,889	$ 799,576	$ 685,831	$ 31,612,296

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

FIRST BOOK

STATEMENT OF CASH FLOWS (AUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2010

Cash Flows From Operating Activities:	
Increase in net assets	$ 9,588,179
Adjustments to reconcile net assets to net cash provided by operating activities:	
Depreciation and amortization	2,006
Realized loss on investments	1,051
Unrealized gain on investments	< 2,958>
Non-cash contributions	< 25,322>
Increase in contributed inventory	< 7,045,350>
Decrease in grants receivable	87,996
Increase in other receivables	< 1,432>
Increase in purchased inventory	< 229,051>
Decrease in escrow deposit	34,665
Decrease in accounts payable	< 42,350>
Increase in accrued expenses	16,066
Net Cash Provided By Operating Activities	2,383,500
Cash Flows From Investing Activities:	
Proceeds from sale of investments	26,879
Purchase of fixed assets	< 13,255>
Net Cash Provided By Investing Activities	13,624
Cash Flows From Financing Activities:	
Curtailment of note payable	< 1,200,000>
Net Cash Used In Financing Activities	< 1,200,000>
NET INCREASE IN CASH	1,197,124

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, 2010

NET INCREASE IN CASH		1,197,124
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		3,442,467
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	4,639,591
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$	18,185

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 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.

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, 2010 consisted of $12,130,319 of books donated to First Book and $1,606,769 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, 2010 was $2,006.

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 not-for-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

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.

Subsequent Events

The date to which events occurring after December 31, 2010, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is April 28, 2011, which is the date on which the financial statement was available to be issued.

NOTE 2 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.

NOTE 2 RESTRICTED NET ASSETS (CONTINUED)

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

Purchase of books for donation	$ 343,854
Purchase of books by First Book Marketplace Recipient Groups	1,227,280
Total temporarily restricted net assets	$ 1,571,134

There are no permanently restricted net assets.

NOTE 3 CONCENTRATION OF CREDIT RISK

First Book currently holds cash accounts in two institutions substantially in excess of the FDIC insured 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 insured limit and the total amounts on deposit. Accounts held in excess of FDIC insured at December 31, 2010 were $1,916,456. All of the funds are held in sweep accounts invested daily in United States Government bonds. Because interest rates are minimal, as of January 1, 2011, the Sweep has been removed from all accounts in order to take advantage of the unlimited FDIC insurance on non-interest bearing accounts.

NOTE 4 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.

NOTE 4 COMMITMENT (CONTINUED)

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

Year Ending December 31,	Amount
2011	$ 340,481
2012	204,299
Total minimum future rental payments	$ 544,780