

BYTE BACK, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

KOSITZKA, WICKS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



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KOSITZKA, WICKS & COMPANY
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
Byte Back, Inc.
Washington, D.C.

We have audited the accompanying statements of financial position of **Byte Back, Inc.** (a not-for-profit corporation) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of **Byte Back, Inc.'s** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 **Byte Back, Inc.** as of June 30, 2011 and 2010, 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.

Kositzka, Wicks and Company

Alexandria, VA
October 10, 2011

Byte Back, Inc.

Statements of Financial Position June 30,

2011

2010

Assets

Current assets

Cash and cash equivalents	\$ 32,114	\$ 57,987
Grants and contracts receivable	122,031	61,563
Promotional items	7,245	-
Prepaid expenses	1,143	123
Total current assets	<u>162,533</u>	<u>119,673</u>

Other assets - 200

Property and equipment

Land	23,345	23,345
Property and equipment, net	<u>222,674</u>	<u>234,917</u>
	<u>246,019</u>	<u>258,262</u>

Total assets \$ 408,552 \$ 378,135

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 24,457	\$ 8,688
Grants payable	10,280	-
Mortgage loan payable - current portion	<u>13,998</u>	<u>13,005</u>
	48,735	21,693

Mortgage loan payable - noncurrent portion 219,534 233,532
Total liabilities 268,269 255,225

Net assets

Unrestricted	37,482	46,792
Temporarily restricted	<u>102,801</u>	<u>76,118</u>
	<u>140,283</u>	<u>122,910</u>

Total liabilities and net assets \$ 408,552 \$ 378,135

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Byte Back, Inc.

Statements of Activities for the years ended June 30, 2011 and 2010 summarized

	2011			2010
	Unrestricted	Temporarily Restricted	Total	
Support and revenue				
Contributions and grants	\$ 238,321	\$ 150,000	\$ 388,321	\$ 465,471
Contract revenue - computer classes	267,624	99,491	367,115	25,942
Interest income	35	-	35	130
	<u>505,980</u>	<u>249,491</u>	<u>755,471</u>	<u>491,543</u>
 In-kind contributions				
Donated services - at fair value	381,364	-	381,364	155,293
Donated materials - at fair value	150,342	-	150,342	11,682
	<u>531,706</u>	<u>-</u>	<u>531,706</u>	<u>166,975</u>
 Net assets released from restrictions	<u>222,808</u>	<u>(222,808)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,260,494</u>	<u>26,683</u>	<u>1,287,177</u>	<u>658,518</u>
 Expenses				
Program services	1,031,705	-	1,031,705	486,483
General and administrative	198,821	-	198,821	116,223
Fundraising	39,278	-	39,278	27,842
Total expenses	<u>1,269,804</u>	<u>-</u>	<u>1,269,804</u>	<u>630,548</u>
 Change in net assets	<u>(9,310)</u>	<u>26,683</u>	<u>17,373</u>	<u>27,970</u>
Net assets, beginning of year	<u>46,792</u>	<u>76,118</u>	<u>122,910</u>	<u>94,940</u>
Net assets, end of year	<u>\$ 37,482</u>	<u>\$ 102,801</u>	<u>\$ 140,283</u>	<u>\$ 122,910</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Byte Back, Inc.

Statement of Activities for the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Contributions and grants	\$ 203,471	\$ 262,000	\$ 465,471
Contract revenue - computer classes	-	25,942	25,942
Interest income	130	-	130
	<u>203,601</u>	<u>287,942</u>	<u>491,543</u>
 In-kind contributions			
Donated services - at fair value	155,293	-	155,293
Donated materials - at fair value	11,682	-	11,682
	<u>166,975</u>	<u>-</u>	<u>166,975</u>
 Net assets released from restrictions	<u>340,126</u>	<u>(340,126)</u>	<u>-</u>
Total support and revenue	<u>710,702</u>	<u>(52,184)</u>	<u>658,518</u>
 Expenses			
Program services	486,483	-	486,483
General and administrative	116,223	-	116,223
Fundraising	27,842	-	27,842
Total expenses	<u>630,548</u>	<u>-</u>	<u>630,548</u>
 Change in net assets	<u>80,154</u>	<u>(52,184)</u>	<u>27,970</u>
Net assets, beginning of year	<u>(33,362)</u>	<u>128,302</u>	<u>94,940</u>
Net assets, end of year	<u>\$ 46,792</u>	<u>\$ 76,118</u>	<u>\$ 122,910</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Byte Back, Inc.

Statement of Functional Expenses for the year ended June 30, 2011

	<u>Program services</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs	\$ 270,172	\$ 25,972	\$ 20,588	\$ 316,732
Payroll taxes	29,444	2,831	2,244	34,519
Employee benefits	29,614	2,847	2,257	34,718
Occupancy	20,321	7,197	1,151	28,669
Maintenance and repairs	8,476	1,034	254	9,764
Grants to other organizations	40,700	-	-	40,700
Professional services	91,300	45,622	2,770	139,692
Program expenses	23,926	-	-	23,926
Depreciation	18,956	4,308	974	24,238
Equipment and repairs	13,178	108	4	13,290
Insurance	3,143	321	184	3,648
Telephone and internet	4,032	492	181	4,705
Supplies	15,668	1,824	520	18,012
Meetings	2,884	893	-	3,777
Postage and shipping	317	321	3,582	4,220
Printing and copying	12,559	546	1,589	14,694
Marketing	2,220	49	1,916	4,185
Staff development and travel	8,575	1,678	282	10,535
Dues and subscriptions	1,946	1,155	428	3,529
Volunteer training and other	4,235	-	38	4,273
Fees	2,139	2,035	245	4,419
Total operating expenses	<u>603,805</u>	<u>99,233</u>	<u>39,207</u>	<u>742,245</u>
In-kind contributions				
Donated services - at fair value	282,512	98,852	-	381,364
Donated materials - at fair value	145,388	736	71	146,195
	<u>427,900</u>	<u>99,588</u>	<u>71</u>	<u>527,559</u>
Total expenses	<u>\$ 1,031,705</u>	<u>\$ 198,821</u>	<u>\$ 39,278</u>	<u>\$ 1,269,804</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Byte Back, Inc.

Statement of Functional Expenses for the year ended June 30, 2010

	<u>Program services</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs	\$ 166,506	\$ 54,228	\$ 12,785	\$ 233,519
Payroll taxes	13,939	4,676	1,129	19,744
Employee benefits	12,299	4,502	1,087	17,888
Occupancy	20,829	5,485	2,691	29,005
Maintenance and repairs	7,933	1,798	800	10,531
Professional services	19,033	22,961	605	42,599
Program expenses	7,069	-	-	7,069
Depreciation	16,375	4,717	637	21,729
Equipment and repairs	20,779	1,527	-	22,306
Insurance	4,229	1,178	576	5,983
Telephone and internet	4,913	1,344	562	6,819
Supplies	15,416	4,840	853	21,109
Meetings	5,143	633	-	5,776
Postage and shipping	794	888	972	2,654
Printing and copying	509	447	2,351	3,307
Marketing	3,739	180	35	3,954
Staff development and travel	3,111	260	329	3,700
Dues and subscriptions	891	1,000	995	2,886
Volunteer training and other	2,360	67	-	2,427
Fees	-	1,692	35	1,727
Total operating expenses	<u>325,867</u>	<u>112,423</u>	<u>26,442</u>	<u>464,732</u>
In-kind contributions				
Donated services	150,493	3,400	1,400	155,293
Donated materials	10,123	400	-	10,523
	<u>160,616</u>	<u>3,800</u>	<u>1,400</u>	<u>165,816</u>
Total expenses	<u>\$ 486,483</u>	<u>\$ 116,223</u>	<u>\$ 27,842</u>	<u>\$ 630,548</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Byte Back, Inc.

Statements of Cash Flows for the years ended June 30,

2011**2010****Cash flows from operating activities**

Change in net assets	\$ 17,373	\$ 27,970
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	24,238	21,729
Donated equipment	(4,147)	(1,159)
(Increase) decrease in operating assets		
Grants and contracts receivable	(60,468)	(16,263)
Promotional items	(7,245)	-
Prepaid expenses	(1,020)	2,655
Other assets	200	(200)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	15,769	4,058
Grants payable	10,280	-
Net cash provided by operating activities	<u>(5,020)</u>	<u>38,790</u>

Cash flows from investing activities

Purchase of property and equipment	<u>(7,848)</u>	<u>(24,459)</u>
Net cash used by investing activities	(7,848)	(24,459)

Cash flows from financing activities

Proceeds from line of credit	45,000	-
Proceeds from loan payable	75,000	-
Repayment of mortgage loan	(13,005)	(12,042)
Repayment of line of credit	(45,000)	(24,576)
Repayment of loan payable	<u>(75,000)</u>	<u>-</u>
Net cash used by investing activities	(13,005)	(36,618)

Net decrease in cash and cash equivalents	(25,873)	(22,287)
Cash and cash equivalents, beginning of year	<u>57,987</u>	<u>80,274</u>
Cash and cash equivalents, end of year	<u>\$ 32,114</u>	<u>\$ 57,987</u>

Supplemental disclosure of cash flow information

Cash paid for interest	<u>\$ 20,460</u>	<u>\$ 19,533</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Byte Back, Inc.

Notes to Financial Statements June 30, 2011 and 2010

1. Organization and purpose

Founded in 1997, Byte Back, Inc.'s (Byte Back) mission is to improve economic opportunity for low-income residents of the Washington, DC area by providing computer training and employment readiness skills. Byte Back offers a wide range of computer training, from basic computer literacy to Information Technology (IT) certification courses; as well as job readiness skills and job placement assistance. Instructors are volunteers. Low-income students receive free instruction and a free refurbished computer upon graduation. During fiscal year 2011, Byte Back taught classes to more than 1,000 students. Additionally, Byte Back provided training for IT certification to over 100 students. Byte Back is a licensed postsecondary educational institution. In 2010, Byte Back won Honorable Mention for the Washington Post Award for Excellence in Nonprofit Management and was selected for inclusion in the 2010-2011 Catalogue for Philanthropy.

2. Significant accounting policies

Basis of accounting

The financial statements of Byte Back are prepared using the accrual method of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred. All revenue and expenses which are applicable to future periods have been presented as deferred revenue or prepaid expenses on the accompanying statements of financial position.

Financial statement presentation

Byte Back 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. At June 30, 2011 and 2010, Byte Back had no permanently restricted net assets.

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 certain 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.

Cash and cash equivalents

For purposes of the statements of cash flows, the Organization considers all cash and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. It is the Organization's policy not to classify certificates of deposit as cash and cash equivalents. Unlimited FDIC insurance for noninterest-bearing transaction accounts became effective on December 31, 2010 and continues through December 31, 2012. FDIC insurance on interest bearing accounts is \$250,000 per depositor, per insured bank.

See independent auditor's report.

Byte Back, Inc.

Notes to Financial Statements June 30, 2011 and 2010

2. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment is recorded at cost if purchased and at fair value if donated. Byte Back capitalizes all expenditures for property and equipment in excess of \$500 with a useful life in excess of one year or more. Depreciation is computed using the straight-line method.

Compensated absences

Employees of Byte Back are entitled to paid vacation depending on job classification, length of service and other factors. As of June 30, 2011 and 2010, estimated compensated absences of \$5,073 and \$3,054 are included in accounts payable and accrued expenses in the accompanying statements of financial position.

Contributions and promises to give

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Byte Back reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Revenue recognition

The Organization provides services for a fee under contractual agreements which are accounted for as exchange transactions. Accordingly, revenues are recorded when earned and expenses are recorded when incurred. The asset "Contract expenses in excess of billings" represents revenues recognized in excess of amounts billed. The liability "Billings in excess of contract expenses" represents billings in excess of revenues recognized. Resources received in exchange transactions are reported as increases in unrestricted revenues and net assets on the statement of activities. There were no contract expenses in excess of billings or billings in excess of contract expenses for the years ended June 30, 2011 and 2010.

Promotional items

Byte Back maintains promotional items such as t-shirts, thumb drives, water bottles, and pens. These items are given to students, potential students and volunteers.

See independent auditor's report.

Byte Back, Inc.

Notes to Financial Statements June 30, 2011 and 2010

2. Summary of significant accounting policies (continued)

In-kind contributions

A substantial number of volunteers donate time to Byte Back's program services. Certain donated services are reflected in the financial statements because the services require specialized skills as defined by U.S. generally accepted accounting principles and are an integral part of Byte Back's purpose. Donated property is reflected as a revenue or asset at the fair market value of the property on date of donation. In-kind support is detailed in Note 6 of these financial statements.

Functional classification of expenses

The costs of providing the programs and services are summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and services benefited. Expenses have been allocated between the program, fundraising and general and administrative functions based on labor hours of employees and use of office space.

Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, grants and contracts receivable, promotional items, prepaid expenses and other assets. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses, grants payable and all debt instruments. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

Income taxes

Byte Back, Inc. is exempt from federal income tax as a non-profit organization described in Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation. The Organization did not have a liability for unrelated business income for the years ended June 30, 2011 and 2010.

The material jurisdictions subject to potential examination by taxing authorities include the U.S. and the District of Columbia. Management does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on the Organization's results of operations. Tax years that remain subject to examination by the IRS are fiscal years 2008 through 2011.

See independent auditor's report.

Byte Back, Inc.

Notes to Financial Statements June 30, 2011 and 2010

2. Summary of significant accounting policies (continued)

Subsequent events

The Organization assessed events occurring subsequent to June 30, 2011 through October 10, 2011, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements.

On September 1, 2011, Byte Back began leasing additional office space in a building near its current office. Rent is \$1,500 a month with an increase of 3% each year. There is an additional charge for utilities, cleaning and use of the conference room. The initial lease period is one year.

3. Cash and cash equivalents

Cash and cash equivalents for June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Checking	\$ 22,121	\$ 32,987
Money market	9,993	25,000
	<u>\$ 32,114</u>	<u>\$ 57,987</u>
Covered by the Federal Deposit Insurance Corporation (FDIC)	<u>\$ 54,614</u>	<u>\$ 92,207</u>

See independent auditor's report.

Byte Back, Inc.

Notes to Financial Statements June 30, 2011 and 2010

4. Property and equipment

Property and equipment at June 30, 2011 and 2010 consisted of the following:

	2011			
	Cost	Accumulated depreciation	Depreciation expense	Useful life
Building	\$ 234,316	\$ 72,908	\$ 6,008	39 years
Building renovations	35,310	5,345	2,219	15 years
Furniture and equipment	139,151	107,850	16,011	3-7 years
Total	<u>\$ 408,777</u>	<u>\$ 186,103</u>	<u>\$ 24,238</u>	

	2010			
	Cost	Accumulated depreciation	Depreciation expense	Useful life
Building	\$ 234,316	\$ 66,900	\$ 6,008	39 years
Building renovations	31,262	3,126	2,084	15 years
Furniture and equipment	131,204	91,839	13,637	3-7 years
Total	<u>\$ 396,782</u>	<u>\$ 161,865</u>	<u>\$ 21,729</u>	

5. Grants and contracts receivable

All grants and contracts receivable balances as of June 30, 2011 and 2010 are due within one year. As a result, grants and accounts receivable are measured at net realizable value.

Byte Back has no allowance for bad debt as all amounts are deemed fully collectible. Specific bad debts are expensed as they become known. Byte Back had grants receivable of \$79,614 and \$40,000, respectively as of June 30, 2011 and 2010.

During the year ended June 30, 2010, Byte Back was awarded a contract to provide computer training services through the District of Columbia Department of Employment Services (DOES). The amount due from DOES for services provided as of June 30, 2011 and 2010 was \$42,417 and \$21,563, respectively. Grants and contracts receivable are included together on the accompanying statements of financial position.

See independent auditor's report.

Byte Back, Inc.

Notes to Financial Statements June 30, 2011 and 2010

6. In-kind contributions

Byte Back receives contributions of software, professional services and time from volunteer teachers who provide computer training to participants of the organization's programs. Such contributions are valued at fair market value at the time of receipt. Teacher hours are valued between \$15 and \$60 per hour, depending on the course level taught.

Donated services and labor as of June 30, 2011 include consulting services of \$70,000 to acquire a Strategic Scorecard that clarifies Byte Back's strategic plan, objectives, measures, targets and initiatives. In 2011, Byte Back received software licenses from Microsoft. In 2010, Byte Back received donated media, a five-minute local news segment. For 2010, other professional services included a social media research study, management consulting and website design.

Donated services and materials for the years ended June 30, 2011 and 2010 included the following:

	<u>2011</u>	<u>2010</u>
Donated services and labor		
Consulting services	\$ 70,000	\$ -
Classroom teachers, including Americrops volunteers	300,086	104,573
Other professional services	11,278	10,400
Donated media	-	40,320
Donated assets	4,147	11,682
Donated materials and supplies	146,195	-
Total	<u>\$ 531,706</u>	<u>\$ 166,975</u>

In-kind materials are recorded as revenue and expensed as incurred and classified as a program service or management and general expense.

A substantial number of additional volunteers donate time to Byte Back's program services. These donated services are not reflected in the financial statements as the services do not require specialized skills as defined by U.S. generally accepted accounting principles.

See independent auditor's report.

Byte Back, Inc.

Notes to Financial Statements June 30, 2011 and 2010

7. Temporarily restricted net assets

Temporarily restricted net assets consist of the following as of June 30, 2011 and 2010:

	<u>2010</u>	<u>Additions</u>	<u>Releases</u>	<u>2011</u>
<i>Restricted for future periods</i>				
Cafritz Foundation	\$ 12,500	\$ 35,000	\$ 30,000	\$ 17,500
Barker Foundation	28,136	60,000	62,084	26,052
<i>Restricted for future programs</i>				
Meyer Foundation	15,000	30,000	16,500	28,500
Neighborhood Investment Fund	20,482	-	6,361	14,121
Mayor's Office on Latino Affairs	-	25,000	18,652	6,348
DC Department of Employment Services: Green Jobs	-	99,491	89,211	10,280
	<u>\$ 76,118</u>	<u>\$ 249,491</u>	<u>\$ 222,808</u>	<u>\$ 102,801</u>

8. Grants payable

During the year ended June 30, 2011, Byte Back borrowed \$75,000 for operating purposes from the Meyer Foundation. The loan was repaid in full, with no interest.

During the year ended June 30, 2011, Byte Back was awarded a \$100,000 grant from the Department of Employment Services in partnership with First Time Computers and Washington Area Community Investment Fund. Each organization submitted grant reimbursement requests to Byte Back for their respective portion of the grant. At June 30, 2011 Byte Back owed First Time Computers \$5,314 and Washington Area Community Investment Fund \$4,966. These amounts represent the final disbursements of the grant.

See independent auditor's report.

Byte Back, Inc.

Notes to Financial Statements June 30, 2011 and 2010

9. Mortgage loan payable

Byte Back has a mortgage loan secured by land and its office building. As of June 30, 2011 and 2010, the principal amount of the mortgage loan payable was \$233,532 and \$246,537, respectively. The mortgage loan bears interest at 7.61% with a monthly installment of \$2,631. The full principal balance and all unpaid accrued interest, if any, shall be due and payable in full on June 26, 2022. The future minimum principal payments on the mortgage loan are as follows as of June 30:

2012	\$	13,998
2013		15,163
2014		16,375
2015		17,674
Thereafter		170,322
Total	\$	<u>233,532</u>

10. Line of credit

Byte Back has a \$45,000 business line of credit, secured by the land and its office building. The line of credit is renewed annually. Interest is applied at the annual rate of 4.25% and payments are required monthly. No amounts were outstanding as of June 30, 2011.

See independent auditor's report.