

NE Kelly + Associates, LLC

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OPERATION BOOTSTRAP, INC.

Financial Statements

June 30, 2007

OPERATION BOOTSTRAP, INC.

Financial Statements

June 30, 2006

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Independent Auditors' Report on the Financial Statements

To the Board of Directors
Operation Bootstrap, Inc.
Lynn, MA

We have audited the accompanying statements of financial position of Operation Bootstrap, Inc. (a nonprofit corporation) as of June 30, 2007, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 accompanying statements of financial position referred to above present fairly, in all material respects, the financial position of Operation Bootstrap, Inc. as of June 30, 2007 and its changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 15, 2007 on our consideration of Operation Bootstrap, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Operation Bootstrap, Inc. taken as a whole.

Boston, MA
September 12, 2007

OPERATION BOOTSTRAP, INC.

Notes to Financial Statements

June 30, 2007

Note 1- Organization

Operation Bootstrap, Inc. (the "Organization") was incorporated as a not-for-profit Corporation in Massachusetts on July 17, 1979. The Organization primarily provides service to adults; teen's ages 16 and older that are not currently attending school are eligible for services. Programs offered range from GED preparation to literacy. Participants are tested and referred to an appropriate program. Workshops are available to assist participants in the development of job readiness skills. Job placement assistance is available. There is no fee for participation. The major sources of funding are from federal and state contracts.

Note 2- Summary of Significant Accounting Policies

Basis of Presentation

Unrestricted Net Assets - consist of assets, public support and program revenues, which are available and used for operations and programs. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets - include funds with donor-imposed restrictions, which stipulate that the organization expend the assets as specified and are satisfied either by the passage of time or by actions of the organization. Resources of this nature originate from gifts, grants, bequests, contracts and investment income earned on restricted funds.

Permanently Restricted Net Assets - include resources, which have a permanent donor-imposed restriction, which stipulates that the assets are to be maintained permanently, but permit the organization to expend part or all of the income derived from the donated assets. There were no permanently restricted net assets at year-end.

Cash and Cash Equivalents

For financial statement purposes, the Corporation considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Furniture and Depreciation

Furniture is recorded at cost. Depreciation is calculated on a straight-line basis as follows:

Furniture	3-7 years
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Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged.

The Corporation 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. When a donor restriction expires temporarily restricted assets are reclassified to unrestricted net assets.

OPERATION BOOTSTRAP, INC.

Notes to Financial Statements

June 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

The Corporation reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Contributed Goods and Services

The Corporation records various types of in kind support including contributed facilities, professional services, advertising and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as “in kind support” are offset by amounts included in expenses or property and equipment.

Functional Allocation of Expenses

The Corporation allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expenditure classification.

Income Tax Status

The Corporation is exempt from federal income taxes as an organization (not deemed a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The Corporation qualifies for the 50% contribution received deduction. The Corporation is also exempt from Massachusetts’s income tax. Therefore, no income tax expense has been provided for.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Corporation management to make estimates and assumptions. These 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 revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Concentration of Credit Risk

The Corporation maintains its cash and cash equivalents in various financial institutions in accounts, which at times may exceed federally insured limits. The Corporation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

OPERATION BOOTSTRAP, INC.

Notes to Financial Statements

June 30, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Operation Bootstrap, Inc.'s financial statements for the year ended June 30, 2005, from which the summarized information was derived.

Note 3 - Furniture and Equipment

Equipment consist of the following at June 30, 2006 and 2005

	2007	2006
Furniture and equipment	\$ 58,695	\$ 58,695
Less accumulated depreciation	(51,097)	(46,698)
Property and equipment, net	\$ 7,598	\$ 11,997

Note 4 - Lease Commitments

As of the date of these financial statements, the Organization rents as a tenant at will at the current premises.

Note 5 - Excess (Deficit) of Revenue from the Commonwealth of Massachusetts

The Commonwealth of Massachusetts Not-For-Profit Provider Surplus Revenue Retention Policy pursuant to 808 CMR 1.19 (3) of Pricing, Reporting and Auditing for Social Programs allows a provider to retain, for future use, a portion of annual net surplus. This net surplus, from the revenues and expenses associated with services provider to Purchasing Agencies which are subject to 808 CMR 1.00, may not exceed 5% of said provider's revenue annually. Furthermore, the cumulative amount of the provider's net surplus may not exceed 20% of the provider's prior year's revenue from purchasing agencies.

A current year surplus, which exceeds the 20% amount, may be reinvested in program services as stipulated by the purchasing agencies, recouped, or used by the Commonwealth to reduce the price of future contracts.

- Beginning accumulated surplus revenue retention for the year ended June 30, 2005 was negative \$315,358. There were no funds expended from the SRR fund pool during June 30, 2006.
- Surplus revenue retention calculated for the year ended June 30, 2006 was negative \$89,323.
- The accumulated SRR balance is negative \$404,681, which is less than the limit of the 5% and the 20% on a cumulative basis.

OPERATION BOOTSTRAP, INC.

Notes to Financial Statements

June 30, 2007

Note 6- Pension Plan

The Organization's pension plan is a defined contribution plan, which is designed to qualify under section 403 (b) of the Internal Revenue Code. All full-time and part-time employees, who elect to participate, are covered by the plan. Eligible employees may contribute up to 20% of gross compensation, with a maximum contribution of \$14,000 per employee. There are no employer contributions to this plan.

Note 7- Concentrations

Approximately 82% of total revenue is received from the City of Lynn and the Commonwealth of Massachusetts Department of Education.

Note 8-Restricted net assets

The Organization has net assets that are restricted for various programmatic purposes.

Supplemental Financial Information

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Independent Auditors' Report on Schedule of Expenditures of Federal Awards

The Board of Directors
Operation Bootstrap, Inc.
Lynn, MA

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Operation Bootstrap, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations* and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

September 12, 2007
Boston, MA

***Reporting Under
Government Auditing Standards***

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*Independent Auditors' Report on Compliance and Internal Control
over Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards*

To the Board of Directors
Operation Bootstrap, Inc.
Lynn, MA

We have audited the financial statements of Operation Bootstrap, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated September 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Operation Bootstrap, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Operation Bootstrap, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

This report is intended solely for the information and use of the audit committee, management, the board of directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 12, 2007
Boston, MA

OMB Circular A-133 Reporting

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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Operation Bootstrap, Inc.
Lynn, MA

Compliance

We have audited the compliance of Operation Bootstrap, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget "OMB" Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007.

Operation Bootstrap, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Operation Bootstrap, Inc.'s management. Our responsibility is to express an opinion on Operation Bootstrap, Inc. compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on test basis, evidence about Operation Bootstrap, Inc.'s compliance with those circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Operation Bootstrap, Inc.'s compliance with those requirements.

In our opinion, Operation Bootstrap, Inc. complied, in all material respects, except for the findings of non compliance with the documentation of required for the contract match referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Operation Bootstrap, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Operation Bootstrap, Inc.'s internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no other matter involving the internal control over compliance and its operation that we consider to be a material weaknesses.

This report is intended for the information and use of the audit committee, management, board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 12, 2007
Boston, MA 02111

OPERATION BOOTSTRAP, INC.

Summary of Findings and Questioned Costs

Year Ended June 30, 2006

Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Operation Bootstrap, Inc.
2. The auditors' report on compliance for major federal award programs for Operation Bootstrap, Inc. expresses an unqualified opinion.
3. The program tested as a major program included:
 - Commonwealth of Massachusetts
 - Department of Education CFDA No. 84.002
4. The threshold for distinguishing between Type A and B programs was \$300,000 of federal awards expended.
5. Prior year findings: 2006 -1 Insufficient Documentation of Contract Cash Match
- 6 The auditee did not qualify as a low risk auditee.

OPERATION BOOTSTRAP, INC.

Summary of Audit Findings

Year Ended June 30, 2006

2006 -1 Insufficient Documentation of Contract Cash Match

Statement of Condition - Criteria

All match revenue and related expenditures must be documented as set forth in 24 CFR Part 84 and OMB Circular A-122. Records must adequately identify the source and application of funds for federally sponsored activities and include a comparison of outlays with budget amounts for each award.

Cause

The general ledger system is not set up in a manner that can adequately track the cash match. These amounts of revenues and related expenses had to be reconstructed at the end of the year.

Effect

Noncompliance with these requirements can impair the ability of the organization to document whether or not they have met the cash match and therefore, earned the contract revenues. There is a risk the organization can bill for amounts of which they did not earn by generating the cash match.

Update for 2007

The organization has modified their accounting and general ledger procedures to adequately document the required cash match.