

# **Borders Group Foundation**

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**Financial Report**  
**December 31, 2010**

# **Borders Group Foundation**

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Plante & Moran, PLLC

Suite 1A  
111 E. Court St.  
Flint, MI 48502  
Tel: 810.767.5350  
Fax: 810.767.8150  
plantemoran.com

## Independent Auditor's Report

To the Board of Directors  
Borders Group Foundation

We have audited the accompanying balance sheet of Borders Group Foundation as of December 31, 2010 and 2009 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 audits 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 Borders Group Foundation and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

February 9, 2011

# Borders Group Foundation

## Balance Sheet

	December 31, 2010	December 31, 2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 966,607	\$ 563,435
Investments (Note 2)	1,967,911	3,235,608
Contributions receivable - Net (Note 3)	322,502	593,393
Other receivables	1,495	1,800
Total current assets	3,258,515	4,394,236
Investments - Net of current portion (Note 2)	1,473,947	474,427
Total assets	<u>\$ 4,732,462</u>	<u>\$ 4,868,663</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 8,156	\$ 26,461
Sales tax payable	2,201	2,299
Total liabilities	10,357	28,760
<b>Net Assets</b>		
Unrestricted	3,425,275	3,216,906
Temporarily restricted (Note 4)	1,296,830	1,622,997
Total net assets	4,722,105	4,839,903
Total liabilities and net assets	<u>\$ 4,732,462</u>	<u>\$ 4,868,663</u>

# Borders Group Foundation

## Statement of Activities and Changes in Net Assets

	Year Ended					
	December 31, 2010			December 31, 2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue, Gains, and Other Support</b>						
Contributions - Employees	\$ 7,671	\$ 285,000	\$ 292,671	\$ 8,498	\$ 333,400	\$ 341,898
Contributions - Other	1,651	-	1,651	1,460	-	1,460
In-kind contributions	3,544	-	3,544	902	-	902
Contributed services (Note 5)	49,574	-	49,574	44,058	-	44,058
Interest income	70,818	-	70,818	127,434	-	127,434
Special events - Net (Note 7)	177,045	-	177,045	117,523	-	117,523
Miscellaneous income	1,264	-	1,264	5,092	-	5,092
Net assets released from restrictions	611,167	(611,167)	-	420,666	(420,666)	-
Total revenue, gains, and other support	922,734	(326,167)	596,567	725,633	(87,266)	638,367
<b>Expenses</b>						
Program services:						
Financial assistance	224,903	-	224,903	204,968	-	204,968
Disaster relief assistance	1,100	-	1,100	1,000	-	1,000
Scholarship program	168,900	-	168,900	212,548	-	212,548
Memorial contributions for employees	7,500	-	7,500	5,000	-	5,000
Bereavement outreach	39,756	-	39,756	36,734	-	36,734
Contributed services (Note 5)	38,668	-	38,668	34,365	-	34,365
Resources and materials	2,038	-	2,038	7,829	-	7,829
Other assistance to employees	3,223	-	3,223	1,365	-	1,365
Program staffing	138,341	-	138,341	124,692	-	124,692
Support services:						
Management and general (Note 6)	64,337	-	64,337	83,755	-	83,755
Fund-raising	25,599	-	25,599	21,600	-	21,600
Total expenses	714,365	-	714,365	733,856	-	733,856
<b>Decrease in Net Assets</b>	208,369	(326,167)	(117,798)	(8,223)	(87,266)	(95,489)
<b>Net Assets - Beginning of year</b>	3,216,906	1,622,997	4,839,903	3,225,129	1,710,263	4,935,392
<b>Net Assets - End of year</b>	<b>\$ 3,425,275</b>	<b>\$ 1,296,830</b>	<b>\$ 4,722,105</b>	<b>\$ 3,216,906</b>	<b>\$ 1,622,997</b>	<b>\$ 4,839,903</b>

See Notes to Financial Statements.

# Borders Group Foundation

## Statement of Cash Flows

	Year Ended	
	December 31, 2010	December 31, 2009
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets	\$ (117,798)	\$ (95,489)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Bad debt expense	2,202	34,794
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	268,689	119,660
Other receivables	305	4,950
Accounts payable	(18,305)	(12,603)
Sales tax payable	(98)	(72)
Net cash provided by operating activities	134,995	51,240
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(3,003,979)	(7,549,800)
Proceeds from sales and maturities of investments	3,272,156	7,819,234
Net cash provided by investing activities	268,177	269,434
<b>Net Increase in Cash and Cash Equivalents</b>	403,172	320,674
<b>Cash and Cash Equivalents - Beginning of year</b>	563,435	242,761
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 966,607</b>	<b>\$ 563,435</b>

# **Borders Group Foundation**

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## **Notes to Financial Statements December 31, 2010 and 2009**

### **Note I - Nature of Business and Significant Accounting Policies**

**Nature of the Organization** - Borders Group Foundation (the "Foundation") is a nonprofit organization created for the purpose of coordinating programs and services to assist with the charitable needs of the employees of Borders Group, Inc. (the "Company"). The Foundation achieves its objectives through three basic programs: (1) the Employee Assistance Program, (2) the Scholarship Program, and (3) Community Support.

The Employee Assistance Program, which includes financial and bereavement assistance, was established in February 1996 to provide short-term financial assistance to individuals who have demonstrated financial need due to severe hardship and/or emergency circumstances. In addition to immediate financial assistance, the Foundation also makes available other tools to help affected employees deal with ongoing financial challenges.

The Scholarship Program was established in January 2002 to assist employees with the costs of higher education. The Scholarship Program is managed by an independent panel of judges who select recipients based on academic performance, leadership and participation in community and/or school activities, work experience, statement of career goals, and unusual personal circumstance.

The Foundation also provides general support to charitable organizations who are meeting the immediate needs of communities affected by widespread disasters such as hurricanes or floods.

**Cash Equivalents** - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents, except for certain 90-day certificates of deposit which are considered part of the investment portfolio.

**Contributions** - Contributions from Company employees are recognized as temporarily restricted revenue when pledged. These contributions are restricted for use in the Employee Assistance Program for employees that pledged on or before December 31, 2006. Pledges made by employees subsequent to December 31, 2006 are not purpose restricted. The contributions receivable balance includes amounts to be contributed by Company employees through payroll deductions; such amounts are expected to be collected within one year. An estimate of uncollectible contributions is recorded as a reduction to contributions receivable. The allowance for uncollectible contributions totaled \$15,000 and \$18,600 as of December 31, 2010 and 2009, respectively.

**Classification of Net Assets** - Net assets of the Foundation are classified as unrestricted, temporarily restricted, or permanently restricted, depending on the presence and characteristics of donor-imposed restrictions limiting the Foundation's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

# **Borders Group Foundation**

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## **Notes to Financial Statements December 31, 2010 and 2009**

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. The Foundation had no permanently restricted net assets as of December 31, 2010 and 2009.

**Federal Tax Status** - The Foundation has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Management believes that the Foundation has adequate funding from nonprivate sources to be exempt from private foundation excise taxes.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including February 9, 2011, which is the date the financial statements were available to be issued.

**Concentration** - Nearly all revenue and support for the years ended December 31, 2010 and 2009 was received from the Company, its employees and its vendors. Due to recent news regarding the Company's financial stability, it is at least reasonably possible that the Foundation may not have continued access to contributed services and other support from the Company, its vendors, and employees.

### **Note 2 - Investments**

Investments consisted entirely of certificates of deposit in the amounts of \$3,441,858 and \$3,710,035 as of December 31, 2010 and 2009, respectively.

# Borders Group Foundation

## Notes to Financial Statements December 31, 2010 and 2009

### Note 3 - Contributions Receivable

Net contributions receivable at December 31, 2010 and 2009 consist of the following:

	2010	2009
Gross contributions receivable	\$ 337,502	\$ 611,993
Less allowance for uncollectibles	(15,000)	(18,600)
Net contributions receivable	<u>\$ 322,502</u>	<u>\$ 593,393</u>

As of December 31, 2009, there was \$211,501 of the contribution receivable balance related to amounts due from the Company for the 2007 campaign (due in 2008). This receivable was fully collected in 2010.

### Note 4 - Net Assets

Temporarily restricted net assets are restricted as follows at December 31:

	2010	2009
Purpose restricted - Employee financial assistance	\$ 1,111,603	\$ 1,225,074
Time restricted - Pledges	185,227	397,923
Total	<u>\$ 1,296,830</u>	<u>\$ 1,622,997</u>

Time-restricted net assets are expected to be released within one year.

### Note 5 - Contributed Services

Certain operating services are provided by the Company at no cost to the Foundation. These amounts are included in revenue and expenses as contributed services. These services have been allocated to program and support services. The fair values of these services during 2010 are as follows:

	Program	Management and General	Fundraising	Total
Office rent	\$ 28,080	\$ 3,600	\$ 4,320	\$ 36,000
Equipment	1,170	150	180	1,500
Miscellaneous	9,418	1,207	1,449	12,074
Total	<u>\$ 38,668</u>	<u>\$ 4,957</u>	<u>\$ 5,949</u>	<u>\$ 49,574</u>

# Borders Group Foundation

## Notes to Financial Statements December 31, 2010 and 2009

### Note 5 - Contributed Services (Continued)

The fair values of these services during 2009 are as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Office rent	\$ 28,080	\$ 3,600	\$ 4,320	\$ 36,000
Equipment	1,170	150	180	1,500
Miscellaneous	5,115	656	787	6,558
Total	<u>\$ 34,365</u>	<u>\$ 4,406</u>	<u>\$ 5,287</u>	<u>\$ 44,058</u>

### Note 6 - Management and General

Management and general expenses during 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Accounting fees	\$ 27,449	\$ 28,199
Administrative staffing	12,384	10,606
Contributed services	4,957	4,406
Bad debts	2,202	34,794
Other expenses	17,345	5,750
Total	<u>\$ 64,337</u>	<u>\$ 83,755</u>

### Note 7 - Special Events

Revenue and expenses from special event activities are summarized below for the years ended December 31, 2010 and 2009:

	<u>Revenues</u>	<u>Expenses</u>	<u>Net Revenue</u>
2010			
Miscellaneous events	\$ 68,862	\$ (9,120)	\$ 59,742
Golf outing	152,605	(35,302)	117,303
Total	<u>\$ 221,467</u>	<u>\$ (44,422)</u>	<u>\$ 177,045</u>
2009			
Miscellaneous events	\$ 57,935	\$ (10,169)	\$ 47,766
Golf outing	94,273	(24,516)	69,757
Total	<u>\$ 152,208</u>	<u>\$ (34,685)</u>	<u>\$ 117,523</u>

# **Borders Group Foundation**

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## **Notes to Financial Statements December 31, 2010 and 2009**

### **Note 8 - Related Party**

The Foundation was the sole member of Paperchase Foundation UK (formerly known as Borders Group Foundation United Kingdom) (the "UK Foundation"). The UK Foundation was formed in 2005 for the purpose of supporting Company employees in the United Kingdom. The Foundation did not make any contributions to the UK Foundation in 2010 or 2009. During 2010, the Foundation resigned as the sole member of the UK Foundation and membership was transferred to another organization.