

LINCOLN LITERACY  
FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

LINCOLN LITERACY  
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DANA F. COLE & COMPANY, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1248 O STREET, SUITE 500  
LINCOLN, NEBRASKA 68508

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Lincoln Literacy  
Lincoln, Nebraska

We have audited the accompanying financial statements of Lincoln Literacy (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Literacy as of December 31, 2013 and 2012, 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.

*Dana F Cole + Company, LLP*

Lincoln, Nebraska  
April 14, 2014

LINCOLN LITERACY  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2013 AND 2012

	2013	2012
<b>ASSETS</b>		
ASSETS		
Cash and cash equivalents	172,757	218,067
Accounts receivable	39,624	30,569
Inventory	5,666	7,266
Prepaid expenses	1,884	
Investments	1,068	1,076
Equipment	38,684	37,494
Less accumulated depreciation	<u>(36,557)</u>	<u>(35,798)</u>
<b>TOTAL ASSETS</b>	<u><b>223,126</b></u>	<u><b>258,674</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES		
Accounts payable	11,719	9,972
Sales tax payable	103	41
Payroll tax payable	2,105	1,908
Wages payable	4,846	4,135
Unearned grant support	<u>35,480</u>	<u>75,796</u>
Total liabilities	<u>54,253</u>	<u>91,852</u>
NET ASSETS		
Unrestricted	<u>168,873</u>	<u>166,822</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>223,126</b></u>	<u><b>258,674</b></u>

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

LINCOLN LITERACY  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
REVENUES AND OTHER SUPPORT		
Contributions	58,595	44,714
United Way funding	45,452	38,937
Other grants	78,015	56,553
Membership dues	11,260	12,560
Government grants	142,754	157,034
Fees	22,190	27,875
Workshops, classes, materials	1,700	1,290
Investment income	1,025	962
Book sales	486	597
Fundraising	<u>27,337</u>	<u>33,481</u>
Total revenues and other support	<u>388,814</u>	<u>374,003</u>
EXPENSES		
Program services		
BASIC	48,556	10,753
ESL	308,735	337,763
Management and general	11,448	12,325
Fundraising	<u>18,024</u>	<u>11,672</u>
Total expenses	<u>386,763</u>	<u>372,513</u>
CHANGE IN NET ASSETS	2,051	1,490
NET ASSETS, beginning of year	<u>166,822</u>	<u>165,332</u>
NET ASSETS, end of year	<u>168,873</u>	<u>166,822</u>

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

LINCOLN LITERACY  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013				
	BASIC	ESL	Management and General	Fund- raising	Total
Wages and payroll taxes	45,247	218,778	4,456	8,400	276,881
Training/teaching materials		32,758			32,758
Office, postage, printing, supplies	3,309	28,385	2,701		34,395
Conference, workshop, dues, travel		3,690			3,690
Occupancy		25,124	4,291		29,415
Fees				9,624	9,624
	<u>48,556</u>	<u>308,735</u>	<u>11,448</u>	<u>18,024</u>	<u>386,763</u>
	2012				
	BASIC	ESL	Management and General	Fund- raising	Total
Wages and payroll taxes	10,472	243,619	5,460	5,125	264,676
Training/teaching materials		36,250			36,250
Office, postage, printing, supplies	281	26,777	3,099		30,157
Conference, workshop, dues, travel		5,496			5,496
Occupancy		25,621	3,766		29,387
Fees				6,547	6,547
	<u>10,753</u>	<u>337,763</u>	<u>12,325</u>	<u>11,672</u>	<u>372,513</u>

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

LINCOLN LITERACY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	<u>2,051</u>	<u>1,490</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	759	1,727
Unrealized (gain) loss on investments	(33)	12
Realized (gain) loss on investments	(52)	
Donation of stock	(1,035)	(1,088)
(Increase) Decrease in accounts receivable	(9,055)	7,984
(Increase) Decrease in inventory	1,600	(80)
(Increase) Decrease in prepaid expenses	(1,884)	
Increase (Decrease) in accounts payables	1,747	(566)
Increase (Decrease) in sales tax payable	62	(8)
Increase (Decrease) in payroll tax payable	197	174
Increase (Decrease) in wages payable	711	986
Increase (Decrease) in unearned grants	<u>(40,316)</u>	<u>32,338</u>
Total adjustments	<u>(47,299)</u>	<u>41,479</u>
Net cash provided by (used in) operating activities	<u>(45,248)</u>	<u>42,969</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale of investments	1,128	
Purchases of equipment	<u>(1,190)</u>	
Net cash used in investing activities	<u>(62)</u>	
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(45,310)	42,969
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>218,067</u>	<u>175,098</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>172,757</u>	<u>218,067</u>

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

LINCOLN LITERACY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Lincoln Literacy ("Organization") is a Nebraska nonprofit corporation. Its purpose is to bring students together with volunteers to provide literacy services, support, and awareness to the community. The Organization's primary support comes from donors and grants.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

The Organization utilizes FASB ASC 958-205 *Financial Statements of Not-for-Profit Organizations*. FASB ASC 958-205 sets standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories utilized by the Organization follows:

Unrestricted Net Assets

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and any other assets or liabilities are reported as increases in unrestricted net assets unless their use is limited by donor stipulation or by laws.

Temporarily Restricted Net Assets

Include amounts received that are designated for future periods or are restricted by the donor for specific purposes. When a donor restriction expires through the expiration of time or satisfaction of the donors; restrictions, restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restriction.

Permanently Restricted Net Assets

Include amounts that are subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for unrestricted purposes.

At December 31, 2013 and 2012, there were no temporarily restricted or permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.



LINCOLN LITERACY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Organization utilizes FASB ASC 958-320, *Not-for-Profit Entities, Investments - Debt and Equity Securities*. FASB ASC 958-320 establishes standards of reporting at fair value certain investments, debt and equity securities, held by not-for-profit organizations.

Therefore, investments in equity securities that have a readily determinable fair value and all investments in debt securities are stated at fair value, with gains and losses included in the statements of activities. Fair value is determined by quoted market values.

Accounts Receivable

Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts is considered necessary at year end.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, if purchased, or fair market value, if donated. Major expenditures for property and those which substantially increase useful lives are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Depreciation

The Organization provides for depreciation of property and equipment using annual rates which are sufficient to amortize the cost of depreciable assets using the straight-line method over their estimated useful lives for five years.

Contributions

The Organization utilizes FASB ASC 958-605, *Accounting for Contributions Received and Made*. FASB ASC 958-605 requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

LINCOLN LITERACY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)

Contributed Materials and Services

The Organization records various types of in-kind contributions. Contributed services are recognized at fair market value 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 contributions are offset by like amounts included in expenses or additions to property and equipment.

Volunteers

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with their operations. The volunteer hours have not been recorded in the financial statements since those services do not meet the criteria for recognition.

Concentration of Support

The Organization receives approximately 15% of its annual budget from a contract with the Nebraska Health and Human Services System.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been reported on a functional basis in the consolidated statement of functional expenses.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$1,084 and \$- 0 - for the years ended December 31, 2013 and 2012, respectively.

Compensated Absences

Employees' vacation benefits are recognized when paid.

Use of Estimates

The preparation of financial statements in accordance 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

LINCOLN LITERACY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization has adopted the provisions of FASB ASC 740-10, *Accounting for Uncertain Tax Positions*. The Organization continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings. The Organization's U.S. Federal, state and local tax returns for 2010 and after are subject to examination by tax authorities.

Reclassification

In certain instances, figures for the prior year have been reclassified to place them on a basis comparable with the current year.

NOTE 2. INVESTMENTS

The Organization utilizes FASB ASC 820-10, *Fair Value Measurements*, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. FASB ASC 820-10 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in FASB ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various methods including market, income, and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securi-

LINCOLN LITERACY  
NOTES TO FINANCIAL STATEMENTS

NOTE 2. INVESTMENTS (Continued)

ties and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the years ended December 31, 2013 and 2012, the application of valuation techniques applied to similar assets has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Marketable Equity Securities

The fair value of marketable equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Fair Value on a Recurring Basis

The table below presents the balances of assets measured at December 31, 2013 and 2012, at fair value on a recurring basis.

	2013			
	Total	Level 1	Level 2	Level 3
Equity Securities				
U.S. Companies	<u>1,068</u>	<u>1,068</u>	=====	=====
	2012			
	Total	Level 1	Level 2	Level 3
Equity Securities				
U.S. Companies	<u>1,076</u>	<u>1,076</u>	=====	=====

LINCOLN LITERACY  
NOTES TO FINANCIAL STATEMENTS

NOTE 2. INVESTMENTS (Continued)

The carrying amounts, market value, unrealized gains, and unrealized losses of the Level 1 marketable securities at December 31, 2013, are as follows:

	2013		
	Cost	Unrealized Gain (loss)	Market Value
Equity Securities	<u>1,035</u>	<u>33</u>	<u>1,068</u>
	2012		
	Cost	Unrealized Gain (loss)	Market Value
Equity Securities	<u>1,088</u>	<u>(12)</u>	<u>1,076</u>

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial conditions and near-term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As management has the ability to hold securities for the foreseeable future, no declines are deemed to be other than temporary.

The following schedule summarized the investment return in the statements of activities for the years ended December 31, 2013 and 2012:

	2013	2012
Investment income	940	974
Realized gain (loss)	52	
Unrealized gain (loss)	<u>33</u>	<u>(12)</u>
Total	<u>1,025</u>	<u>962</u>

NOTE 3. PROLITERACY ENDOWED FUND AND THE LINCOLN COMMUNITY FOUNDATION

The Lincoln Community Foundation is a holder of the Proliteracy Endowed Fund and the Organization is a beneficiary of the income from the fund. The income from this fund is remitted to the Organization in November of each year and the amount will vary depending on the investment returns of the Lincoln Community Foundation. The total received from these funds during the year ended December 31, 2013 and 2012, was \$492 and \$490, respectively.

LINCOLN LITERACY  
NOTES TO FINANCIAL STATEMENTS

NOTE 4. LEASE COMMITMENT

In September 2009, the Organization renewed their lease for its current office space under a four year noncancellable lease expiring September 30, 2013, including shared complex expenses. There is an option to renew the lease for an additional four years at an increased monthly rental plus the shared complex expenses. At December 31, 2013, this lease was on a month to month basis of \$1,777.

In June 2013, the Organization entered into a sixty month lease with Eakes Office Plus for a copier requiring payments of \$216 due monthly.

At December 31, 2013, a schedule of the future minimum lease payments required under the above is as follows:

Years Ending December 31,	
2014	2,596
2015	2,596
2016	2,596
2017	2,596
2018	1,298

NOTE 5. CONCENTRATION OF CREDIT RISK

At December 31, 2013 and 2012, all deposits held in financial institutions for the Organization were covered by the Federal Deposit Insurance Corporation or other federally insured instruments.

Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of trade receivables with a variety of customers. The Organization generally does not require collateral from its customers. Such credit risk is considered by management to be limited due to the Organization's broad customer base and its customers' financial resources.

NOTE 6. SUBSEQUENT EVENTS

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 14, 2014, the date the financial statements were available to be issued.