

LINCOLN LITERACY COUNCIL
FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

LINCOLN LITERACY COUNCIL
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lincoln Literacy Council
Lincoln, Nebraska

We have audited the accompanying statements of financial position of Lincoln Literacy Council (a non-profit organization) as of December 31, 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 the Council'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 reports.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Literacy Council as of December 31, 2011 and 2010, and the changes in its net assets and 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 12, 2012

LINCOLN LITERACY COUNCIL
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| ASSETS | | |
| Cash and cash equivalents | 175,098 | 171,791 |
| Accounts receivable | 38,553 | 22,826 |
| Inventory | 7,186 | 6,343 |
| Equipment | 37,494 | 36,482 |
| Less accumulated depreciation | <u>(34,071)</u> | <u>(29,787)</u> |
| TOTAL ASSETS | <u>224,260</u> | <u>207,655</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | 10,538 | 1,727 |
| Sales tax payable | 49 | 87 |
| Payroll tax payable | 1,734 | 6,133 |
| Wages payable | 3,149 | 4,000 |
| Unearned grant support | <u>43,458</u> | <u>32,515</u> |
| Total liabilities | <u>58,928</u> | <u>44,462</u> |
| NET ASSETS | | |
| Unrestricted | <u>165,332</u> | <u>163,193</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>224,260</u> | <u>207,655</u> |

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

LINCOLN LITERACY COUNCIL
 STATEMENTS OF ACTIVITIES
 YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|----------------------------------|----------------|----------------|
| REVENUES AND OTHER SUPPORT | | |
| Contributions | 18,651 | 49,502 |
| United Way funding | 39,921 | 20,805 |
| Other grants | 76,227 | 69,019 |
| Membership dues | 7,968 | 16,585 |
| Government grants | 125,467 | 95,242 |
| Fees | 9,300 | 20,055 |
| Workshops, classes, materials | 2,375 | 2,158 |
| Investment income | 1,349 | 4,631 |
| Book sales | 496 | 883 |
| Fundraising | <u>21,010</u> | <u>31,508</u> |
| Total revenues and other support | <u>302,764</u> | <u>310,388</u> |
| EXPENSES | | |
| Program services | | |
| BASIC | 12,157 | 8,231 |
| ESL | 261,387 | 280,590 |
| Management and general | 11,599 | 17,685 |
| Fundraising | <u>15,482</u> | <u>9,936</u> |
| Total expenses | <u>300,625</u> | <u>316,442</u> |
| CHANGE IN NET ASSETS | 2,139 | (6,054) |
| Transfer to Endowment Fund | | (10,572) |
| NET ASSETS, beginning of year | <u>163,193</u> | <u>179,819</u> |
| NET ASSETS, end of year | <u>165,332</u> | <u>163,193</u> |

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

LINCOLN LITERACY COUNCIL
 STATEMENTS OF FUNCTIONAL EXPENSES
 YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | | | | |
|-------------------------------------|---------------|----------------|------------------------------|------------------|----------------|
| | BASIC | ESL | Management and General | Fund- raising | Total |
| Wages and payroll taxes | 11,947 | 195,835 | 4,284 | 5,320 | 217,386 |
| Training/teaching materials | | 9,044 | | | 9,044 |
| Office, postage, printing, supplies | 210 | 21,855 | 2,713 | 3,305 | 28,083 |
| Conference, workshop, dues, travel | | 5,274 | 15 | | 5,289 |
| Occupancy | | 29,379 | 4,587 | | 33,966 |
| Fees | | | | 6,857 | 6,857 |
| | <u>12,157</u> | <u>261,387</u> | <u>11,599</u> | <u>15,482</u> | <u>300,625</u> |
| | 2010 | | | | |
| | BASIC | ESL | Management and General | Fund- raising | Total |
| Wages and payroll taxes | 8,066 | 223,826 | 10,231 | 2,452 | 244,575 |
| Training/teaching materials | | 7,296 | | | 7,296 |
| Office, postage, printing, supplies | 165 | 16,680 | 3,358 | 6,920 | 27,123 |
| Conference, workshop, dues, travel | | 4,398 | | | 4,398 |
| Occupancy | | 28,390 | 4,096 | | 32,486 |
| Fees | | | | 564 | 564 |
| | <u>8,231</u> | <u>280,590</u> | <u>17,685</u> | <u>9,936</u> | <u>316,442</u> |

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

LINCOLN LITERACY COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|---|----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | <u>2,139</u> | <u>(6,054)</u> |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 4,284 | 4,986 |
| (Increase) Decrease in accounts receivable | (15,727) | 9,878 |
| (Increase) Decrease in inventory | (843) | 1,554 |
| Increase (Decrease) in accounts payables | 8,811 | (1,522) |
| Increase (Decrease) in sales tax payable | (38) | (84) |
| Increase (Decrease) in payroll tax payable | (4,399) | 4,363 |
| Increase (Decrease) in wages payable | (851) | (781) |
| Increase (Decrease) in unearned grants | <u>10,943</u> | <u>(31,556)</u> |
| Total adjustments | <u>2,180</u> | <u>(13,162)</u> |
| Net cash provided by (used in) operating activities | <u>4,319</u> | <u>(19,216)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Change in investment in Endowment Fund | | 7,724 |
| Transfer to Endowment Fund | | (10,572) |
| Purchases of equipment | <u>(1,012)</u> | <u>(105)</u> |
| Net cash used in investing activities | <u>(1,012)</u> | <u>(2,953)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,307 | (22,169) |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>171,791</u> | <u>193,960</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>175,098</u> | <u>171,791</u> |

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

LINCOLN LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Lincoln Literacy Council ("Council") 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 Council's primary support comes from donors and grants.

Basis of Accounting

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

Financial Statement Presentation

The Council 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 Council 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 statement 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 Council. Generally, the donors of these assets permit the Council to use all or part of the income earned on related investments for unrestricted purposes.

At December 31, 2011 and 2010, there were no temporarily restricted or permanently restricted net assets.

Cash and Cash Equivalents

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

LINCOLN LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Council 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 Council 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 Council 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.

Contributed Materials and Services

The Council 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.

LINCOLN LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)

Volunteers

Many individuals volunteer their time and perform a variety of tasks that assist the Council 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 Council 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 \$- 0 - and \$331 for the years ended December 31, 2011 and 2010, respectively.

Compensated Absences

Employees' vacation benefits are recognized when paid.

Income Taxes

The Council 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 Council's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Council 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 Council has adopted the provisions of FASB ASC 740-10, "Accounting for Uncertain Tax Positions". The Council continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings. The Council's U.S. federal, state and local tax returns for 2008 and after are subject to examination by tax authorities.

LINCOLN LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 2. ENDOWMENT FUND - PROLITERACY WORLDWIDE

The Council had an Endowment Fund which was administered by ProLiteracy Worldwide. The Council was entitled to 75% of contributions made. The initial amount transferred was \$10,000. At December 31, 2009, the fair value was \$10,298, of which \$7,724 was entitled to the Council. The Endowment Fund was recorded in the financial statements as an asset with an equal amount reported as a Board-designated Endowment Fund. As of December 31, 2010, the fair market value of \$10,572 was transferred out to the Lincoln Community Foundation.

NOTE 3. PROLITERACY ENDOWED FUND AND THE LINCOLN COMMUNITY FOUNDATION

The Lincoln Community Foundation is a holder of the Proliteracy Endowed Fund and the Council is a beneficiary of the income from the fund. The income from this fund is remitted to the Council 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, 2011 and 2010 was \$467 and \$220, respectively.

NOTE 4. LEASE COMMITMENT

In September 2009, the Council 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, 2011, a schedule of the future minimum rental payments required under the above is as follows:

| Years Ending December 31, | |
|------------------------------|--------|
| 2012 | 18,983 |
| 2013 | 14,555 |

LINCOLN LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS

NOTE 5. CONCENTRATION OF CREDIT RISK

At December 31, 2011 and 2010, all deposits held in financial institutions for the Council were covered by the Federal Deposit Insurance Corporation or other federally insured instruments.

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

NOTE 6. SUBSEQUENT EVENTS

In 2012, the Council is in the process of formally changing their name to Lincoln Literacy.

In preparing the financial statements, the Council has evaluated events and transactions for potential recognition or disclosure through April 12, 2012, the date the financial statements were available to be issued.