

LINCOLN LITERACY
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017



**DANA F. COLE
& COMPANY** LLP
CERTIFIED PUBLIC ACCOUNTANTS

LINCOLN LITERACY
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**DANA F. COLE
& COMPANY_{LLP}**
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the 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, 2018 and 2017, 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 auditor's 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018 the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Dana J Cole+Company, LLP

Lincoln, Nebraska
April 17, 2019

LINCOLN LITERACY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
ASSETS		
Cash and cash equivalents	161,835	179,887
Investments	117,569	104,572
Accounts receivable	70,141	60,223
Inventory	8,889	6,805
Prepaid expenses	2,918	2,622
Equipment	71,731	80,056
Less accumulated depreciation	<u>(33,053)</u>	<u>(26,582)</u>
TOTAL ASSETS	<u>400,030</u>	<u>407,583</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	7,379	25,874
Sales tax payable	47	42
Payroll tax payable	15,818	2,183
Wages payable	4,153	4,431
Unearned grant support and deferred revenue	<u>12,492</u>	<u>42,554</u>
Total liabilities	<u>39,889</u>	<u>75,084</u>
NET ASSETS		
With donor restriction		
Restricted by purpose or time	11,500	
Without donor restriction		
Net investment in property and equipment	38,678	53,474
Designated	106,601	91,719
Undesignated	<u>203,362</u>	<u>187,306</u>
Total without donor restriction	<u>348,641</u>	<u>332,499</u>
Total net assets	<u>360,141</u>	<u>332,499</u>
TOTAL LIABILITIES AND NET ASSETS	<u>400,030</u>	<u>407,583</u>

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

LINCOLN LITERACY
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND OTHER SUPPORT						
Contributions	184,333		184,333	142,886		142,886
United Way funding	42,852		42,852	43,176		43,176
Other grants	107,258	11,500	118,758	121,325		121,325
Membership dues	9,679		9,679	9,622		9,622
Government grants		125,849	125,849		171,562	171,562
Fees	29,331		29,331	30,913		30,913
Workshops, classes, and materials	16,019		16,019	13,775		13,775
Investment return	(104)		(104)	11,876		11,876
Loss on disposal of fixed assets	(1,038)		(1,038)	(27)		(27)
Loss on book sales	(395)		(395)	(148)		(148)
Fundraising	48,459		48,459	42,650		42,650
Net assets released from restriction	<u>125,849</u>	<u>(125,849)</u>		<u>171,562</u>	<u>(171,562)</u>	
Total revenues and other support	<u>562,243</u>	<u>11,500</u>	<u>573,743</u>	<u>587,610</u>		<u>587,610</u>
EXPENSES						
Program services						
FLAIR	86,417		86,417	87,327		87,327
BASIC	22,987		22,987	24,473		24,473
ESL	384,095		384,095	387,644		387,644
Management and general	27,582		27,582	21,126		21,126
Fundraising	<u>25,020</u>		<u>25,020</u>	<u>23,768</u>		<u>23,768</u>
Total expenses	<u>546,101</u>		<u>546,101</u>	<u>544,338</u>		<u>544,338</u>
CHANGE IN NET ASSETS	16,142	11,500	27,642	43,272		43,272
NET ASSETS, beginning of year	<u>332,499</u>		<u>332,499</u>	<u>289,227</u>		<u>289,227</u>
NET ASSETS, end of year	<u>348,641</u>	<u>11,500</u>	<u>360,141</u>	<u>332,499</u>		<u>332,499</u>

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

LINCOLN LITERACY
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018					
	Program Services			Management and	Fund-	Total
	ESL	BASIC	FLAIR	General	raising	
Wages and payroll taxes	294,694	22,884	73,346	15,280	13,677	419,881
Professional services	1,105			195		1,300
Training/teaching materials	21,559					21,559
Office, postage, printing, supplies	25,606	103	4,021	6,724	1,968	38,422
Conference, workshop, dues, travel	8,637		1,100	551		10,288
Occupancy	32,494		7,950	4,832		45,276
Fees					9,375	9,375
	<u>384,095</u>	<u>22,987</u>	<u>86,417</u>	<u>27,582</u>	<u>25,020</u>	<u>546,101</u>
	2017					
	Program Services			Management and	Fund-	Total
	ESL	BASIC	FLAIR	General	raising	
Wages and payroll taxes	284,996	24,283	73,600	10,240	13,746	406,865
Training/teaching materials	36,290					36,290
Office, postage, printing, supplies	33,015	190	4,396	6,142	1,742	45,485
Conference, workshop, dues, travel	8,716		1,248	344	95	10,403
Occupancy	24,627		8,083	4,400		37,110
Fees					8,185	8,185
	<u>387,644</u>	<u>24,473</u>	<u>87,327</u>	<u>21,126</u>	<u>23,768</u>	<u>544,338</u>

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

LINCOLN LITERACY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	<u>27,642</u>	<u>43,272</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,689	3,175
Realized loss on investments		58
Unrealized gain (loss) on investments	5,252	(9,175)
Donation of stock		(7,689)
Proceeds from disposals	3,068	
Donation of property and equipment		(900)
Loss on disposition of fixed assets	1,038	27
Increase in accounts receivable	(9,918)	(3,869)
Increase in inventory	(2,084)	(1,790)
Increase in prepaid expenses	(296)	(453)
Decrease in accounts payables adjusted for equipment purchase	(18,495)	(2,020)
Increase in sales tax payable	5	12
Increase in payroll tax payable	13,635	291
Increase (decrease) in wages payable	(278)	64
Decrease in unearned grants	<u>(30,062)</u>	<u>(12,522)</u>
Total adjustments	<u>(27,446)</u>	<u>(34,791)</u>
Net cash provided by operating activities	<u>196</u>	<u>8,481</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments		7,631
Purchase of investments	(18,248)	(2,488)
Purchase of property and equipment		<u>(41,207)</u>
Net cash used in investing activities	<u>(18,248)</u>	<u>(36,064)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,052)	(27,583)
CASH AND CASH EQUIVALENTS, beginning of year	<u>179,887</u>	<u>207,470</u>
CASH AND CASH EQUIVALENTS, end of year	<u>161,835</u>	<u>179,887</u>
Schedule of purchase of property and equipment		
Total property and equipment additions		56,266
Less property and equipment donated		(900)
Less property and equipment purchased through accounts payable		<u>(14,159)</u>
Net purchase of property and equipment		<u>41,207</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 (the 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.

Classes of Net Assets

The financial statements report amounts by class of net assets.

Net assets without donor restrictions are currently available for operating purposes under the direction of the Board, designated by the Board for specific use, or invested in property and equipment.

Net assets with donor restrictions are stipulated by donors for specific operating purposes, for the acquisition of property and equipment or are time restricted. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations.

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.

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.

LINCOLN LITERACY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventories are stated at the lower of cost or net realizable value. 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.

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 its operations. The volunteer hours have not been recorded in the financial statements since those services do not meet the criteria for recognition.

LINCOLN LITERACY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Support

The Organization receives approximately 20% 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 \$863 and \$597 for the years ended December 31, 2018 and 2017, 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.

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 utilizes 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 believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that would be material to the financial statements.

LINCOLN LITERACY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

New Accounting Pronouncement

Effective January 1, 2018, the Organization adopted FASB Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, (ASU 2016-14). The provisions of ASU 2016-14 are intended to simplify and improve the presentation of net assets, as well as provide information regarding liquidity, financial performance, and cash flows. The provisions of ASU 2016-14 that significantly change the Organization's financial statements are as follows:

- Revises the net assets classification structure to two classes (net assets with donor restrictions and net assets without donor restrictions) instead of the previous three classes;
- Enhances disclosures for self-imposed limits on the use of resources both with and without donor-imposed restrictions; and
- Requires quantitative and qualitative disclosures on liquidity and the availability of resources to fund operations.

The financial statements for the year ended December 31, 2017, have been retroactively restated for the effects of the adoption of ASU 2016-14, which resulted in temporarily and permanently restricted net assets being reported as net assets with donor restrictions, and unrestricted net assets being reported as net assets without donor restrictions. There was no change in total net assets, nor was there an effect on the change in net assets in the accompanying statements of activities for the year ended December 31, 2017.

NOTE 2. 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 years ended December 31, 2018 and 2017, was \$632 and \$588, respectively.

NOTE 3. LEASE COMMITMENT

In April 2018, the Organization renewed its lease for its current office space under a noncancellable lease expiring April 30, 2023, including shared complex expenses. On May 1 of each year of the lease term monthly rent will be increased by 2.5%. 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, 2018, monthly lease payments were \$1,685.

LINCOLN LITERACY
NOTES TO FINANCIAL STATEMENTS

NOTE 3. LEASE COMMITMENT (Continued)

In February 2018, the Organization entered into a 60-month lease with Eakes Office Plus for a copier requiring payments of \$195 due monthly.

At December 31, 2018, a schedule of the future minimum lease payments required under the above is as follows:

Year Ending December 31,	
2019	22,898
2020	23,412
2021	23,939
2022	24,479
2023	1,266

NOTE 4. DESIGNATED NET ASSETS

The Board of Directors has designated the following net assets as of December 31, 2018 and 2017, respectively.

	2018	2017
Fund for the future	<u>106,601</u>	<u>91,719</u>

NOTE 5. NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions are available for the following as of December 31, 2018:

ELLA Program	<u>11,500</u>
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NOTE 6. CONCENTRATION OF CREDIT RISK

At December 31, 2018 and 2017, 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.

LINCOLN LITERACY
NOTES TO FINANCIAL STATEMENTS

NOTE 7. INVESTMENTS

The Organization utilizes FASB ASC 820-10, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles. 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 securities 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 fiscal years ended December 31, 2018 and 2017, 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.

LINCOLN LITERACY
NOTES TO FINANCIAL STATEMENTS

NOTE 7. INVESTMENTS (Continued)

Recurring Fair Value Measurements

The table below presents the balances of assets measured at December 31, 2018 and 2017, at fair value on a recurring basis.

		2018			
		Total	Level 1	Level 2	Level 3
Mutual Funds					
	Short-term bond fund	59,450	59,450		
	Corporate equity fund	<u>58,119</u>	<u>58,119</u>		
	Total	<u><u>117,569</u></u>	<u><u>117,569</u></u>		
		2017			
		Total	Level 1	Level 2	Level 3
Mutual Funds					
	Short-term bond fund	46,289	46,289		
	Corporate equity fund	<u>58,283</u>	<u>58,283</u>		
	Total	<u><u>104,572</u></u>	<u><u>104,572</u></u>		

The carrying amounts, market value, unrealized gains, and unrealized losses of the Level 1 marketable securities at December 31, 2018 and 2017, are as follows:

		2018		
		Cost	Unrealized Gain	Market Value
Mutual funds		<u>112,396</u>	<u>5,173</u>	<u>117,569</u>
		2017		
		Cost	Unrealized Gain	Market Value
Mutual funds		<u>94,147</u>	<u>10,425</u>	<u>104,572</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,

LINCOLN LITERACY
NOTES TO FINANCIAL STATEMENTS

NOTE 7. INVESTMENTS (Continued)

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 and its classification in the statements of activities for the years ended December 31, 2018 and 2017:

	2018	2017
Net investment income	5,148	2,759
Realized gains		(58)
Unrealized gains (loss)	<u>(5,252)</u>	<u>9,175</u>
	<u>(104)</u>	<u>11,876</u>

NOTE 8. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	161,835
Investments	117,569
Accounts receivable	<u>70,141</u>
Total financial assets available within one year	349,545
Less amounts restricted by donors	11,500
Less amounts unavailable to management without Board of Directors approval	<u>106,601</u>
Total financial assets available to management for general expenditure within one year	<u>231,444</u>

NOTE 9. SUBSEQUENT EVENTS

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 17, 2019, the date the financial statements were available to be issued.