LINCOLN LITERACY

FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

DANA F. COLE & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

LINCOLN LITERACY
TABLE OF CONTENTS

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, 2014 and 2013, 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, 2014 and 2013, 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 9, 2015

LINCOLN LITERACY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
ASSETS		
Cash and cash equivalents	186,061	172,757
Accounts receivable	39,199	39,624
Inventory	4,303	5,666
Prepaid expenses	2,086	1,884
Investments		1,068
Equipment	38,684	38,684
Less accumulated depreciation	(37,225)	(36,557)
TOTAL ASSETS	233,108	223,126

LIABILITIES AND NET ASSETS

	2014	2013
LIABILITIES		
Accounts payable	12,460	11,719
Sales tax payable	47	103
Payroll tax payable	1,392	2,105
Wages payable	4,488	4,846
Unearned grant support	40,426	35,480
Total liabilities	58,813	54,253
NET ASSETS		
Unrestricted	174,295	168,873
TOTAL LIABILITIES AND NET ASSETS	233,108	223,126

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

LINCOLN LITERACY
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
REVENUES AND OTHER SUPPORT		
Contributions	74,149	58,595
United Way funding	45,980	45,452
Other grants	77,893	78,015
Membership dues	5,577	11,260
Government grants	157,245	142,754
Fees	33,315	22,190
Workshops, classes, and materials	2,163	1,700
Investment income	1,029	1,025
Book sales	212	486
Fundraising	28,553	27,337
Total revenues and other support	426,116	388,814
EXPENSES		
Program services		
BASIC	36,794	48,556
ESL	351,256	308,735
Management and general	12,250	11,448
Fundraising	20,394	18,024
Total expenses	420,694	386,763
CHANGE IN NET ASSETS	5,422	2,051
NET ASSETS, beginning of year	168,873	166,822
NET ASSETS, end of year	174,295	168,873

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

LINCOLN LITERACY
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				
	BASIC	ESL	Management and General	Fund-raising	Total
Wages and payroll taxes	34,197	234,478	4,899	11,051	284,625
Training/teaching materials		58,675			58,675
Office, postage, printing, supplies	775	27,637	2,964		31,376
Conference, workshop, dues, travel	179	3,941			4,120
Occupancy	1,643	26,525	4,387		32,555
Fees				9,343	9,343
	36,794	351,256	12,250	20,394	420,694

	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
	48,556	308,735	11,448	18,024	386,763

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

LINCOLN LITERACY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	5,422	2,051
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	669	759
Unrealized (gain) loss on investments	32	(33)
Realized gain on investments	(32)	(52)
Donation of stock		(1,035)
(Increase) decrease in accounts receivable	425	(9,055)
Decrease in inventory	1,363	1,600
Increase in prepaid expenses	(202)	(1,884)
Increase in accounts payables	741	1,747
Increase (decrease) in sales tax payable	(56)	62
Increase (decrease) in payroll tax payable	(713)	197
Increase (decrease) in wages payable	(358)	711
Increase (decrease) in unearned grants	4,946	(40,316)
Total adjustments	6,815	(47,299)
Net cash provided by (used in) operating activities	12,237	(45,248)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	1,067	1,128
Purchases of equipment		(1,190)
Net cash provided by (used in) investing activities	1,067	(62)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,304	(45,310)
CASH AND CASH EQUIVALENTS, beginning of year	172,757	218,067
CASH AND CASH EQUIVALENTS, end of year	186,061	172,757

The accompanying notes are an integral part of these 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.

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, 2014 and 2013, there were no temporarily restricted or permanently restricted net assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 its 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 $10 and $- 0 - for the years ended December 31, 2014 and 2013, 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.

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 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's U.S. federal, state, and local tax returns for 2011 and after are subject to examination by tax authorities.

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 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.

NOTE 2. INVESTMENTS (Continued)

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, 2014 and 2013, 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, at fair value on a recurring basis.

	2013			
	Total	Level 1	Level 2	Level 3
Equity Securities				
U.S. Companies	1,068	1,068		

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	1,035	33	1,068

NOTE 2. INVESTMENTS (Continued)

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, 2014 and 2013:

	2014	2013
Investment income	1,029	940
Realized gain (loss)	32	52
Unrealized gain (loss)	(32)	33
Total	1,029	1,025

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, 2014 and 2013, was $533 and $492, respectively.

NOTE 4. LEASE COMMITMENT

In September 2014, the Organization renewed its lease for its current office space under a noncancellable lease expiring April 30, 2018, 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, 2014, monthly lease payments were $1,565.

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

NOTE 4. LEASE COMMITMENT (Continued)

At December 31, 2014, a schedule of the future minimum lease payments required under the above is as follows:

Years Ending December 31,	
2015	21,689
2016	22,166
2017	22,656
2018	8,039

NOTE 5. CONCENTRATION OF CREDIT RISK

At December 31, 2014 and 2013, 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 9, 2015, the date the financial statements were available to be issued.