

THE LITERACY ALLIANCE, INC.

FORT WAYNE, INDIANA

Financial Statements

as of August 31, 2014 and 2013

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Literacy Alliance, Inc.
Fort Wayne, Indiana

We have audited the accompanying financial statements of The Literacy Alliance, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2014 and 2013, and the related statements of activities and net assets, 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.

Auditor's 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 The Literacy Alliance, Inc. as of August 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Leonard J. Andorfer & Co., LLP

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants
Fort Wayne, Indiana

October 31, 2014

THE LITERACY ALLIANCE, INC.

Statements of Financial Position

ASSETS	<u>August 31 2014</u>	<u>August 31 2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 177,009	\$ 210,488
Grants receivable	38,539	9,494
Prepaid expenses	-	1,323
Accrued interest receivable	<u>232</u>	<u>353</u>
Total Current Assets	215,780	221,658
INVESTMENT - COMMUNITY FOUNDATION OF GREATER FORT WAYNE	61,372	52,603
PROPERTY AND EQUIPMENT		
Equipment	161,907	154,241
Less accumulated depreciation	<u>(116,423)</u>	<u>(91,425)</u>
Total Property and Equipment (Net)	<u>45,484</u>	<u>62,816</u>
TOTAL ASSETS	<u><u>\$ 322,636</u></u>	<u><u>\$ 337,077</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 3,513	\$ 3,509
Deferred revenue	<u>15,200</u>	<u>-</u>
Total Current Liabilities	18,713	3,509
NET ASSETS		
Unrestricted	230,176	207,420
Temporarily restricted	73,747	126,148
Permanently restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>303,923</u>	<u>333,568</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 322,636</u></u>	<u><u>\$ 337,077</u></u>

The Notes to Financial Statements
are an integral part of the statements.

THE LITERACY ALLIANCE, INC.

Statements of Activities and Net Assets

	Year Ended August 31	
	2014	2013
UNRESTRICTED NET ASSETS		
Support		
Government grants	\$ 144,628	\$ 78,680
Foundation grants	257,081	244,904
Business contributions	9,695	9,683
Individual contributions	36,690	36,638
Fund raising	1,724	1,250
United Way	45,000	45,000
In-kind support	15,291	11,820
Miscellaneous income	12,720	5,412
Revenue		
Investment income	2,988	7,367
Unrealized investment gain (loss)	6,167	(1,229)
Net assets released from restrictions		
Restrictions satisfied by payments	127,206	110,133
Total Unrestricted Support, Revenue and Net Assets Released from Restrictions	659,190	549,658
 EXPENSES		
Program services		
Family literacy	111,607	118,945
Adult instruction	386,715	282,169
Supporting services		
Management and general	66,936	53,728
Fund raising	71,176	53,372
Total Expenses	636,434	508,214
 CHANGE IN UNRESTRICTED NET ASSETS	22,756	41,444
 TEMPORARILY RESTRICTED NET ASSETS		
Support for program services	74,805	130,265
Net assets released from restrictions		
Restrictions satisfied by payments	(127,206)	(110,133)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(52,401)	20,132
 CHANGE IN NET ASSETS	(29,645)	61,576
 NET ASSETS - BEGINNING OF YEAR	333,568	271,992
 NET ASSETS - END OF YEAR	\$ 303,923	\$ 333,568

The Notes to Financial Statements
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THE LITERACY ALLIANCE, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2014
(With Comparative Totals for the Year Ended August 31, 2013)

	Program Services		Supporting Services		2014 Total Expenses	2013 Total Expenses
	Family Literacy	Adult Instruction	Management and General	Fund Raising		
Salaries	\$ 31,984	\$ 227,291	\$ 35,749	\$ 36,664	\$ 331,688	\$ 261,913
Payroll taxes	2,572	18,270	2,770	2,890	26,502	20,999
Staff development		20,560	1,706		22,266	12,991
Medical insurance	997	14,181	1,412	1,061	17,651	8,786
Total Employee Expenses	<u>35,553</u>	<u>280,302</u>	<u>41,637</u>	<u>40,615</u>	<u>398,107</u>	<u>304,689</u>
Instruction	21,517	4,216			25,733	27,582
Resource material	64	23,958			24,022	10,252
Advertising and promotion	339	1,781	59	1,843	4,022	3,859
Professional services	3,135	15,305	12,274	2,145	32,859	23,569
Supplies	1,384	1,765	1,679	2,567	7,395	6,893
Telephone	495	1,455	1,125	904	3,979	3,418
Postage and shipping	220	220	135	2,795	3,370	3,224
Insurance	454	806	449	450	2,159	3,438
Occupancy	15,038	27,457	3,287	1,856	47,638	46,151
Equipment rental and maintenance	618	6,031	828	828	8,305	10,896
Travel		117	315		432	198
Printing and publications	1,310	1,167	331	9,040	11,848	8,299
Dues and subscriptions	135	578	430	887	2,030	2,109
Student expense	4,538	3,496			8,034	8,858
Child care	20,973	4,125			25,098	20,097
Special events	180	250	697	5,278	6,405	3,821
Total Before Depreciation	<u>105,953</u>	<u>373,029</u>	<u>63,246</u>	<u>69,208</u>	<u>611,436</u>	<u>487,353</u>
Depreciation of equipment	5,654	13,686	3,690	1,968	24,998	20,861
Total Expenses	<u>\$ 111,607</u>	<u>\$ 386,715</u>	<u>\$ 66,936</u>	<u>\$ 71,176</u>	<u>\$ 636,434</u>	<u>\$ 508,214</u>

The Notes to Financial Statements
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THE LITERACY ALLIANCE, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2013

	Program Services		Supporting Services		Total Expenses
	Family Literacy	Adult Instruction	Management and General	Fund Raising	
Salaries	\$ 30,659	\$ 169,741	\$ 34,833	\$ 26,680	\$ 261,913
Payroll taxes	2,412	13,819	2,692	2,076	20,999
Staff development	7,565	4,736	353	337	12,991
Medical insurance	1,205	5,333	1,482	766	8,786
Total Employee Expenses	<u>41,841</u>	<u>193,629</u>	<u>39,360</u>	<u>29,859</u>	<u>304,689</u>
Instruction	27,582				27,582
Resource material	158	10,094			10,252
Advertising and promotion	735	2,252		872	3,859
Professional services	3,505	13,896	4,023	2,145	23,569
Supplies	2,191	1,838	1,010	1,854	6,893
Telephone	513	1,572	820	513	3,418
Postage and shipping			34	3,190	3,224
Insurance	722	1,272	722	722	3,438
Occupancy	11,946	28,884	2,661	2,660	46,151
Equipment rental and maintenance	1,575	7,221	1,050	1,050	10,896
Travel	72	89		37	198
Printing and publications	593	1,147	129	6,430	8,299
Dues and subscriptions	252	1,343	262	252	2,109
Student expense	6,304	2,554			8,858
Child care	14,915	5,182			20,097
Special events	1,823	288	35		2,146
Total Before Depreciation	<u>114,727</u>	<u>271,261</u>	<u>50,106</u>	<u>1,675</u>	<u>487,353</u>
Depreciation of equipment	4,218	10,908	3,622	2,113	20,861
Total Expenses	<u>\$ 118,945</u>	<u>\$ 282,169</u>	<u>\$ 53,728</u>	<u>\$ 53,372</u>	<u>\$ 508,214</u>

The Notes to Financial Statements are an integral part of the statements.

THE LITERACY ALLIANCE, INC.

Statements of Cash Flows

	Year Ended August 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(\$ 29,645)	\$ 61,576
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	24,998	20,861
Unrealized investment (gain) loss	(6,167)	1,229
Increase in grants receivable	(29,045)	(7,611)
Decrease in prepaid expenses	1,323	5,215
Decrease in accrued interest receivable	121	397
Increase in accounts payable and accrued expenses	4	2,058
Increase in deferred revenue	15,200	-
Net Cash Provided by (Used For) Operating Activities	(23,211)	83,725
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment acquisitions	(7,666)	(34,290)
Increase in investments	(2,602)	(6,955)
Net Cash Used for Investing Activities	(10,268)	(41,245)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(33,479)	42,480
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	210,488	168,008
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 177,009	\$ 210,488

The Notes to Financial Statements
are an integral part of the statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – The Literacy Alliance’s mission is “to end illiteracy by teaching adults through Learning Centers, literacy programs and tutoring services that empower individuals to succeed at work, at home and in the community.” In support of its mission, the organization provides instruction for adults through community-based GED (general education development) / HSE (high school equivalent) learning centers, pre-GED/HSE classes held in internet-connected computer labs, small groups working on pre-reading skills, and English as a New Language class. The Organization is a collaborator in a Family Literacy project that provides GED/HSE and English as a New Language instruction. Volunteers are an essential part of the instruction team in all program areas. The Literacy Alliance also places a family library in each new Habitat for Humanity home at the time of dedication.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of The Literacy Alliance, Inc. and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of The Literacy Alliance, Inc. and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net unrestricted assets if the restriction expires or is met in the reported period in which the support is recognized.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by The Literacy Alliance, Inc. Generally, the donors of these assets permit The Literacy Alliance, Inc. to use all or part of the income earned on any related investments for general or specific purposes. The Board of The Literacy Alliance, Inc. elected to direct endowment funds to the Community Foundation of Greater Fort Wayne (See Note 8).

Financial Statement Presentation - The Organization has adopted FASB ASC 958-210-45-8. Under FASB ASC 958-210-45-8, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Promises to Give - Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years’ experience and management’s analysis of specific promises made.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Contributions - The Organization has adopted FASB ASC 958-605-05. In accordance with FASB ASC 958-605-05, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributed Services and Gifts in Kind - During the years ended August 31, 2014 and 2013, the value of contributed services meeting the requirements for recognition in the financial statements in accordance with FASB ASC 958-605-05 was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization's program services. The Organization receives more than 3,400 volunteer hours per year.

The Organization also receives the use of facilities used in its programs. The value of the donated facilities amounted to \$15,291 and \$11,820 for the years ended August 31, 2014 and 2013, respectively.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Property and Equipment - Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Equipment is depreciated using the straight-line method over a period of three to seven years.

Functional Expenses - The Literacy Alliance, Inc. allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes - The Literacy Alliance, Inc. is a nonprofit Organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the 50% charitable contribution limitation. The organization has adopted FASB ASC 740-10-25 and determined no material unrecognized tax benefits or liabilities exist as of August 31, 2014. The adoption of FASB ASC 740-10-25 did not impact the organization's financial position or results of operations. If applicable, the Organization will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of August 31, 2014, the Organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Organization does not anticipate any significant changes to unrecognized income tax benefits over the next year. The Organization is generally no longer subject to examination by federal and state agencies for years ended before August 31, 2011.

Advertising Costs - Advertising and promotional programs are charged to expense during the period in which they are incurred.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Compensated Absences - The Organization's employee base is made up of full-time and part-time employees. No liability for compensated absences has been recorded in the financial statements. Any liability that may exist is deemed immaterial.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Revenue - The Organization has recorded deferred revenue in connection with a fund-raising event that will take place in a subsequent year. Deferred revenue amounted to \$15,200 and \$0 as of August 31, 2014 and 2013, respectively.

NOTE 2 - Grants Receivable

The Literacy Alliance, Inc. incurs expenses and then submits requests for reimbursement by third-party grantors. The reimbursement requests are reviewed by the grantor, taking into consideration the purpose of the expenditures, the amount of the original grant and the provisions set forth. Grants receivable under these terms amounted to \$38,539 and \$9,494 as of August 31, 2014 and 2013, respectively.

NOTE 3 - Off-Balance Sheet Risk

The Organization maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. The Organization had deposits in excess of the federally insured limits at various times throughout the year. However, at August 31, 2014 and 2013, the Organization had no uninsured cash balances.

NOTE 4 - Concentrations

An operating grant and a grant restricted for use in the Family Literacy Program from a single donor amounted to \$207,500 and \$200,000 for the years ended August 31, 2014 and 2013, respectively. This amounted to 31.5% and 36.4% of total support and revenue for the years ended August 31, 2014 and 2013, respectively.

NOTE 5 - Line of Credit

The Organization has obtained a short-term line of credit from Star Financial Bank in the amount of \$75,000. The note calls for interest at a rate of prime plus .75%, is secured by substantially all of the Organization's assets and is due on January 1, 2015. There was no balance due on this line of credit as of August 31, 2014 or 2013.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - Leases

The Organization leases office space at a rate of \$2,045 per month on a fixed term lease that expires March 1, 2016. Future minimum lease payments under the terms of the lease are as follows:

<u>Year</u>	<u>Amount</u>
August 31, 2015	\$ 24,541
August 31, 2016	12,270

NOTE 7 - Restrictions on Assets

Temporarily restricted net assets result from non-reimbursement type grants in which the specifically stated grant terms do not coincide with the organization's fiscal year.

A reconciliation of temporarily restricted net assets follows:

	<u>Balance 8/31/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 8/31/2014</u>
Community Foundation of Greater Ft. Wayne - operations	\$ 19,091	\$ 30,000	\$ 30,000	\$ 19,091
Old National Bank - Equipment Grant	1,024		500	524
Fort Wayne Community Schools - Equipment Grant	11,667		4,000	7,667
Lincoln Foundation - Family Literacy	5,127	35,000	33,615	6,512
Foellinger Foundation - Capital Grant	49,178		19,401	29,777
Foellinger Foundation - Inspire Grant	22,138		22,138	-
Dollar General Foundation	6,667		6,667	-
Rally to Read	1,256	2,150	367	3,039
Work One - Equipment Grant	-	4,100	518	3,582
Restricted donations - Family Literacy	-	2,805		2,805
Neighborhood assistance program	-	750		750
Staeble Fnd - Operating Grant	10,000		10,000	-
	<u>\$ 126,148</u>	<u>\$ 74,805</u>	<u>\$ 127,206</u>	<u>\$ 73,747</u>

NOTE 8 - Investment - Community Foundation of Greater Fort Wayne

During the fiscal year ended August 31, 2006, the Board of Directors made a contribution of \$50,000 to the Community Foundation of Greater Fort Wayne. The Foundation has final discretion on the investment and reinvestment of the assets which are held in a pooled fund. Proportional investment earnings less customary and usual fees will either be distributed to The Literacy Alliance, Inc. or added to the fund principal according to the terms of the agreement. As of June 30, 2014 and 2013, the balance in the Foundation amounted to \$61,372 and \$52,603, respectively.

Additionally, the Community Foundation of Greater Fort Wayne holds investment assets with a value of \$23,227 and \$19,425 as of June 30, 2014, and 2013, respectively, for the benefit of the Organization for which they have retained variance power. These investments are not recorded as assets of the Organization.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - Investment - Community Foundation of Greater Fort Wayne (Continued)

Net investment income includes interest on deposit accounts and consisted of the following:

	Year ended August 31	
	2014	2013
Interest income	\$ 2,830	\$ 1,904
Realized gains	315	5,677
Unrealized gains (losses)	6,167	(1,229)
Investment management fees	(157)	(214)
Total	<u>\$ 9,155</u>	<u>\$ 6,138</u>

NOTE 9 – Retirement Plan

The Organization has adopted an Internal Revenue Code 403(b) retirement savings plan for substantially all employees. All contributions to the plan are made by the employees through salary deferrals. The plan does not provide for contributions from The Literacy Alliance.

NOTE 10 – Fair Value of Financial Instruments

FASB ASC 820-10-50-1 requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by The Literacy Alliance, Inc. impacted by this pronouncement include the investments held at market value.

FASB ASC 820-10-50-1 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of input described below:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – Fair Value of Financial Instruments (Continued)

Fair value of financial instruments as of August 31, 2014 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Community Foundation of Greater Fort Wayne	\$	\$	\$ 61,372

Fair value of financial instruments as of August 31, 2013 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Community Foundation of Greater Fort Wayne	\$	\$	\$ 52,603

The table below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended August 31, 2014 and 2013:

	2014 Unobservable Inputs (Level 3)	2013 Unobservable Inputs (Level 3)
Beginning Balance - September 1, 2013	\$ 52,603	\$ 46,877
Total gains or losses (realized/unrealized) included in earnings:		
Interest and dividend income on securities	2,444	1,492
Unrealized gains (losses)	6,167 (1,229)
Realized gain on sale of securities	315	5,677
Investment fees	(157) (214)
Transfers out	-	-
Ending Balance - August 31, 2014	\$ 61,372	\$ 52,603

NOTE 11 – Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 31, 2014, the date the financial statements were available to be issued.