

Literacy Council of Buncombe County
Asheville, North Carolina

Audited Financial Statements
For the Year Ended
June 30, 2014

Literacy Council of Buncombe County
Asheville, North Carolina

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Literacy Council of Buncombe County

We have audited the accompanying financial statements of the Literacy Council of Buncombe County (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 from 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 Council of Buncombe County as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of the Literacy Council of Buncombe County as of June 30, 2013, were audited by other auditors whose report dated August 15, 2013, expressed an unmodified opinion on those statements. As discussed in Note 7, the Organization has restated its June 30, 2013 financial statements during the current year to properly reflect its assets, liabilities and net assets, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the financial statements before the restatement.

As part of our audit of the June 30, 2014 financial statements, we also audited adjustments described in Note 7 that were applied to restate the June 30, 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2013 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2013 financial statements as a whole.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Goldsmith Molis & Gray, PLLC

Goldsmith Molis & Gray, PLLC
Asheville, North Carolina
October 3, 2014

Literacy Council of Buncombe County

Statement of Financial Position

June 30, 2014

(with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets:		
Cash:		
Unrestricted	\$ 39,298	\$ 37,595
Restricted cash	10,000	-
Sales tax receivable	<u>268</u>	<u>393</u>
Total current assets	<u>49,566</u>	<u>37,988</u>
Other assets:		
Property and equipment, net	<u>1,681</u>	<u>2,205</u>
Total assets	<u><u>\$ 51,247</u></u>	<u><u>\$ 40,193</u></u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ -	\$ 2,481
Deferred revenue	<u>24,300</u>	<u>9,975</u>
Total current liabilities	<u>24,300</u>	<u>12,456</u>
Net assets:		
Unrestricted	26,947	27,737
Temporarily restricted	<u>-</u>	<u>-</u>
Total net assets	<u>26,947</u>	<u>27,737</u>
Total liabilities and net assets	<u><u>\$ 51,247</u></u>	<u><u>\$ 40,193</u></u>

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

Literacy Council of Buncombe County
Statement of Activities and Change in Net Assets
For the Year Ended June 30, 2014
(with comparative totals for 2013)

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Total
Public support and revenues				
Contributions	\$ 17,085	\$ 57,150	\$ 74,235	\$ 68,713
Grants	1,500	167,308	168,808	209,612
Special events	54,834	-	54,834	31,540
Other income	6,688	-	6,688	7,064
Interest income	13	-	13	61
Contributed services	297,926	-	297,926	249,829
Net assets released from restrictions	224,458	(224,458)	-	-
Total public support and revenue:	<u>602,504</u>	<u>-</u>	<u>602,504</u>	<u>566,819</u>
Expenses:				
Program activities	514,355	-	514,355	397,790
Supporting services:				
General and administrative	57,055	-	57,055	136,298
Fundraising	31,884	-	31,884	43,735
Total supporting services	<u>88,939</u>	<u>-</u>	<u>88,939</u>	<u>180,033</u>
Total expenses	<u>603,294</u>	<u>-</u>	<u>603,294</u>	<u>577,823</u>
Change in net assets	(790)	-	(790)	(11,004)
Net assets, beginning of year, as restated	<u>27,737</u>	<u>-</u>	<u>27,737</u>	<u>38,741</u>
Net assets, end of year	<u>\$ 26,947</u>	<u>-</u>	<u>\$ 26,947</u>	<u>\$ 27,737</u>

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

Literacy Council of Buncombe County

Notes to the Financial Statements

For the Year Ended June 30, 2014

(with comparative totals for 2013)

Note 1 – Summary of Significant Accounting Policies

General

The Literacy Council of Buncombe County (the “Council”) is a private, non-profit corporation established in 1987 after a merger between the Altrusa Literacy Council and the Asheville-Buncombe Literacy Council. The Council is dedicated to increasing comprehensive literacy and English language skills through specialized instruction by trained tutors.

Basis of Accounting

The financial statements of the organization have been prepared utilizing the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Council has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Council 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 Council is required to present a statement of cash flows.

Contributions

Under generally accepted accounting principles for not-for-profit organizations, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Use of Estimates

Preparation of financial statements in accordance with generally accepted accounting principles requires the Council’s management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments

The Council discloses for each class of financial instruments the methods, and when a valuation technique is used, the significant assumptions applied in determining the fair values of financial assets and liabilities. If there is a change in the valuation technique, then the Council discloses both the change and the reasons for the change.

Literacy Council of Buncombe County

Notes to the Financial Statements
For the Year Ended June 30, 2014
(with comparative totals for 2013)

Note 1 - Summary of Significant Accounting Policies - continued

The Council estimates that the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position. The estimated fair value amounts have been determined by the Council using available market information and appropriate valuation methodologies. The Council's financial instruments consist primarily of cash, receivables, accounts payable and accrued expenses and deferred revenue.

Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Council includes all cash investments which are not subject to withdrawal restrictions or penalties and certificates of deposit with maturity of three months or less as cash and cash equivalents. The Council did not have any cash equivalents at June 30, 2014 and 2013.

The Council maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). The coverage is \$250,000 for substantially all other depository accounts. Deposit accounts, at times, may exceed federally insured limits, but the Council has not experienced any such losses.

Property and Equipment

Expenditures for office equipment, furniture and fixtures and improvements are capitalized at cost. Expenditures for capital assets of less than \$500 are expensed in the year incurred. Donations of property and equipment are recorded as support at their estimated fair market 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 Council reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Council reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

Donated Services

A substantial number of volunteers have donated a significant amount of time to the Council's program services. Contributed services that create or enhance nonfinancial assets or require specialized skills and are provided by individuals possessing those skills are recognized as support. Contributed services of \$297,926 and \$249,829 (management's estimate of the fair value) have been reflected in the accompanying financial statements as in-kind contributions for services contributed by skilled tutors at the Council for the years ended June 30, 2014 and 2013, respectively.

Literacy Council of Buncombe County

Notes to the Financial Statements
For the Year Ended June 30, 2014
(with comparative totals for 2013)

Note 1 - Summary of Significant Accounting Policies – continued

Income Taxes

The Council is established as a not-for-profit entity and has been recognized as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

FASB ASC 740, "Accounting for Uncertainty in Income Taxes" clarified the accounting for the recognition and measurement of uncertainties in income taxes recognized in an entity's financial statements and prescribes a threshold of more likely-than-not for recognition of tax positions taken or expected to be taken in a tax return. The Council's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence.

The Council's income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of June 30, 2014, years subject to examination include the fiscal years ended 2010, 2011, and 2012.

Functional Expenses

The Council allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their nature and expenditure classification. Other expenses that are common to several functions are allocated by statistical means.

Reclassifications

Certain accounts in the June 30, 2013 financial statements have been reclassified to conform to the current year presentation.

Note 2 – Property and Equipment

A description of property and equipment for the years ended June 30, 2014 and 2013 is as follows:

<u>June 30</u>	<u>2014</u>	<u>2013</u>
Computers	\$ 2,946	\$ 2,946
Less: accumulated depreciation	(1,265)	(741)
Property and equipment, net	<u>\$ 1,681</u>	<u>\$ 2,205</u>

Depreciation expense for the years ended June 30, 2014 and 2013 was \$523 and \$523, respectively.

Literacy Council of Buncombe County

Notes to the Financial Statements
For the Year Ended June 30, 2014
(with comparative totals for 2013)

Note 3 – Beneficially Owned Funds

The Council is the beneficial owner, but not the legal owner, of certain donated funds held and controlled by the Community Foundation of Western North Carolina (the “Foundation”). These funds are not reflected in the accompanying Statement of Financial Position. The Council retains certain percentages of beneficial interests in the component fund of the Foundation. The total market value of these funds at June 30, 2014 and 2013 totaled \$114,034 and \$103,316, respectively.

Note 4 – Deferred Revenue

In June 2014, the Council received a \$10,000 grant from the Dollar General Literacy Foundation to be used during the fiscal year ending June 30, 2015. In addition, the Council collected funds during the year ended June 30, 2014 for the Author’s Event held in September 2014.

Deferred revenue totaled \$24,300 and \$9,975 for the years ending June 30, 2014 and 2013, respectively.

Note 5 – Lease Commitments

The Council leases office space in Asheville, North Carolina on a month to month basis for \$2,900 per month. Total rent expense was \$34,800 and \$34,800 for the years ended June 30, 2014 and 2013, respectively.

Note 6 – Concentration of Credit Risk

One agency provided grant revenue totaling \$99,000 or 59% of total grant revenues during the year ended June 30, 2014. One agency provided grant revenue totaling \$90,000 or 48% of total grant revenues during the year ended June 30, 2013.

Note 7 – Prior Period Adjustments

During the year June 30, 2014, management identified certain errors relating to the recording of accounts receivable, accounts payable and fixed assets balances in the prior year financial statements. The effect of these errors resulted in a restatement of the prior year financial statements due to the net overstatement of net assets of \$1,930.

Note 8 – Subsequent Events

The Council evaluated the effect that all subsequent events would have on the financial statements through October 3, 2014, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Literacy Council of Buncombe County

Schedule of Functional Expenses

For the Year Ended June 30, 2014

(with comparative totals for 2013)

	2014				2013
	Program	General & Administrative	Fund Raising	Totals	Totals
Salaries	\$ 119,043	\$ 36,669	\$ 25,121	\$ 180,833	\$ 209,673
Contributed services	297,926	-	-	297,926	249,829
Rent	31,320	1,740	1,740	34,800	34,800
Payroll taxes	9,108	4,232	1,922	15,261	16,146
Materials	12,921	-	-	12,921	9,262
Program expenses	12,602	-	77	12,679	9,355
Contract labor	10,100	-	700	10,800	750
Professional fees	2,051	6,154	-	8,205	16,161
Employee benefits	4,886	1,245	1,057	7,188	7,876
Travel	2,569	846	-	3,415	642
Telephone and internet	2,892	161	161	3,213	4,840
Information technology	90	-	210	300	4,178
Insurance	2,490	138	138	2,767	2,789
Supplies	798	875	-	1,673	1,282
Payroll service	-	1,601	-	1,601	1,575
Postage	769	154	615	1,538	1,573
Credit card fees	-	1,463	-	1,463	1,223
Miscellaneous	1,247	185	-	1,432	3,210
Professional development	404	555	-	959	855
Dues and subscriptions	557	372	-	929	1,002
Depreciation	-	523	-	523	523
Printing	2,581	143	143	2,868	279
Totals	<u>\$ 514,355</u>	<u>\$ 57,055</u>	<u>\$ 31,884</u>	<u>\$ 603,294</u>	<u>\$ 577,823</u>

See Independent Auditors' Report.

Literacy Council of Buncombe County

Schedule of Functional Expenses

For the Year Ended June 30, 2014

(with comparative totals for 2013)

	2014				2013
	Program	General & Administrative	Fund Raising	Totals	Totals
Salaries	\$ 119,043	\$ 36,669	\$ 25,121	\$ 180,833	\$ 209,673
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Rent	31,320	1,740	1,740	34,800	34,800
Payroll taxes	9,108	4,232	1,922	15,261	16,146
Materials	12,921	-	-	12,921	9,262
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Professional fees	2,051	6,154	-	8,205	16,161
Employee benefits	4,886	1,245	1,057	7,188	7,876
Travel	2,569	846	-	3,415	642
Telephone and internet	2,892	161	161	3,213	4,840
Information technology	90	-	210	300	4,178
Insurance	2,490	138	138	2,767	2,789
Supplies	798	875	-	1,673	1,282
Payroll service	-	1,601	-	1,601	1,575
Postage	769	154	615	1,538	1,573
Credit card fees	-	1,463	-	1,463	1,223
Miscellaneous	1,247	185	-	1,432	3,210
Professional development	404	555	-	959	855
Dues and subscriptions	557	372	-	929	1,002
Depreciation	-	523	-	523	523
Printing	2,581	143	143	2,868	279
Totals	<u>\$ 514,355</u>	<u>\$ 57,055</u>	<u>\$ 31,884</u>	<u>\$ 603,294</u>	<u>\$ 577,823</u>

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