

New Mexico Coalition for Literacy

**Financial Statements
for the Year Ended
June 30, 2011
and Independent Auditors' Report**

NEW MEXICO COALITION FOR LITERACY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management of
New Mexico Coalition for Literacy

We have audited the accompanying statement of financial position of New Mexico Coalition for Literacy, ("NMCL", a nonprofit organization) as of June 30, 2011, and the related statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the NMCL's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Mexico Coalition for Literacy as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

White + Samaniego + Campbell, LLP

December 5, 2011
El Paso, Texas

NEW MEXICO COALITION FOR LITERACY

STATEMENT OF FINANCIAL POSITION JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 87,212
Accounts receivable	<u>64,423</u>

Total current assets	151,635
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Rental security deposit	2,190
Investments in endowment - permanently restricted	16,438
Property and equipment, net of accumulated depreciation	<u>13,892</u>

TOTAL ASSETS	<u>\$ 184,155</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts and grants payable	\$ 110,291
Accrued salaries payable	5,200
Accrued annual leave payable	9,133
Deferred revenue	<u>43,180</u>

Total current liabilities	167,804
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NET ASSETS:

Unrestricted	(87)
Permanently restricted	<u>16,438</u>

Total net assets	<u>16,351</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 184,155</u>
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See accompanying notes to financial statements and independent auditors' report.

NEW MEXICO COALITION FOR LITERACY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

UNRESTRICTED NET ASSETS:

Revenue and support:

State of New Mexico Annual Appropriation Adult Literacy Contract	\$ 672,179
Other grants and contracts	22,128
Contributions	2,987
Interest income	25
In-kind revenue	<u>26,198</u>

Total revenue and support 723,517

Functional expenses:

Program services	672,592
Management and general	41,175
Fundraising	<u>6,666</u>

Total functional expenses 720,433

CHANGE IN UNRESTRICTED NET ASSETS 3,084

PERMANENTLY RESTRICTED NET ASSETS:

Endowment income, net 1,799

CHANGE IN PERMANENTLY RESTRICTED NET ASSETS 1,799

CHANGE IN NET ASSETS 4,883

NET ASSETS, Beginning of year 11,468

NET ASSETS, End of year \$ 16,351

See accompanying notes to financial statements and independent auditors' report.

NEW MEXICO COALITION FOR LITERACY

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2011

	Program Services	Management and General	Fundraising	Total
Compensation and related expenses:				
Salaries	\$ 92,484	\$ 20,809	\$ 2,312	\$ 115,605
Payroll taxes	<u>12,528</u>	<u>2,819</u>	<u>313</u>	<u>15,660</u>
Total compensation and related expenses	105,012	23,628	2,625	131,265
Operating expenses:				
Facility costs	25,686	4,816	1,605	32,107
Telephone and internet	5,795	1,087	362	7,244
Grants and contractual services	475,411	-	-	475,411
Professional expenses	10,002	2,500	-	12,502
Office expenses	4,435	832	277	5,544
General expenses	14,533	2,725	908	18,166
Fundraising expenses	-	-	552	552
Postage	2,149	403	134	2,686
Travel	366	69	23	458
Interest	-	1,268	-	1,268
Insurance	<u>2,879</u>	<u>540</u>	<u>180</u>	<u>3,599</u>
Total operating expenses	541,256	14,240	4,041	559,537
Other expenses:				
Depreciation	2,746	687	-	3,433
In-kind expenses	<u>23,578</u>	<u>2,620</u>	<u>-</u>	<u>26,198</u>
Total other expenses	<u>26,324</u>	<u>3,307</u>	<u>-</u>	<u>29,631</u>
Total functional expenses	<u>\$ 672,592</u>	<u>\$ 41,175</u>	<u>\$ 6,666</u>	<u>\$ 720,433</u>

See accompanying notes to financial statements and independent auditors' report.

NEW MEXICO COALITION FOR LITERACY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 4,883
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	3,433
Increase/decrease in:	
Grants receivable	110,797
Accounts and grants payable	28,659
Accrued salaries payable	233
Accrued annual leave payable	2,050
Accrued payroll taxes	(10)
Deferred revenue	<u>1,049</u>
Net cash provided by operating activities	151,094
CASH FLOWS FROM INVESTING ACTIVITIES:	
Disposals	305
Endowment income, net	(4,546)
Fixed assets purchased	<u>(6,112)</u>
Net cash used in investing activities	(10,353)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on line of credit	<u>(183,168)</u>
Net cash used in financing activities	<u>(183,168)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(42,427)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>129,639</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 87,212</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid for interest	\$ 1,268
Non-cash revenue and expense:	
In-kind revenue	\$ 26,198
In-kind expense	\$ (26,198)

See accompanying notes to financial statements and independent auditors' report.

NEW MEXICO COALITION FOR LITERACY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. NATURE OF OPERATIONS

New Mexico Coalition for Literacy ("NMCL") is a not-for-profit corporation established in 1987 to coordinate, expand, and enhance adult and intergenerational literacy services in New Mexico. The NMCL projects include operating a statewide toll free referral, recruitment, and information hotline; administration of the State of New Mexico's appropriation relating to the Adult Literacy Program; development and operation of the New Mexico Literacy Resources Center; and operation of a Literacy Training and Technical Assistance Program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting Presentation – The accompanying financial statements are presented on the accrual basis of accounting. The financial statements presentation follows the recommendations of the Financial Accounting Standards Board in its Codification of Financial Accounting Standards (the Codification) FASB ASC 958. Under FASB ASC 958, net assets, revenues, and expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the NMCL and changes therein are classified and reported as follows:

Unrestricted Net Assets – Unrestricted net assets represent resources that are not subject to donor-imposed stipulations and over which the Board of Directors has discretionary control. Net assets received and expended within the reporting period are reported in the Statement of Activities as unrestricted support or revenue.

Permanently Restricted Net Assets – Permanently restricted net assets represent resources that are subject to donor-imposed stipulations. Generally, the donors of these assets permit New Mexico Coalition for Literacy to use all or part of the assets for the benefit of the program services.

Cash, Cash Equivalents and Restricted Cash – For purposes of the Statement of Cash Flows, the NMCL considers all short-term investments with an original maturity of three months or less to be cash equivalents. Restricted cash represents amounts held for residents in savings and amounts in escrow under forgivable loan requirements.

Accounts Receivables – Accounts, grant receivables and promises to give are stated at net realizable value. In determining whether or not to record an allowance for doubtful accounts, management makes a judgmental determination based on an evaluation of the facts and circumstances related to each account. As of June 30, 2011, all accounts and grants receivable are deemed to be collectible. All accounts receivable were paid by December 5, 2011.

Promises to Give – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. There were no unconditional promises to give at year-end.

Property and Equipment – Property and equipment are carried at cost or, if donated, at the estimated market value at the time of donation. The policy of the NMCL is to capitalize assets with a fair market value of \$500 or more. Depreciation is computed by using the straight-line

basis over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized as revenue or expense for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

The NMCL reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Grants Payable – Grants to subrecipients that are authorized and granted, but unpaid at year end, are reported as accounts and grants payable in the Statement of Financial Position. The NMCL had \$71,250 of grants authorized and unpaid at June 30, 2011. The grants relate to local literacy projects within the State of New Mexico. All grants payable were paid by December 5, 2011.

Accrued Leave – Employees of the NMCL receive paid vacation, paid sick days and personal days off, depending on length of service, and other factors. The accrual can be reasonably estimated, and accordingly, a liability has been recorded in the accompanying financial statements.

Deferred Revenue – Grant awards received for specific purposes are recognized as support to the extent of related expenses incurred in compliance with the specific restrictions. The unexpended funds are reported as deferred revenue in the Statement of Financial Position.

Functional Expense Allocation – Functional expenses have been allocated between Program Services, Support Services and Fundraising in the Statement of Activities and Statement of Functional Expenses based upon direct charges and expense allocations, as governed by approved cost reimbursement grants and contract budgets.

Donated Materials, Equipment, and Services – Donated materials and equipment are recorded as contributions at their estimated values at the date of receipt. In-kind services, which are defined as donations of services that would have to be purchased in order for the NMCL to operate if not donated, are recorded as revenue and expenses in the Statement of Activities for the fair market value of the services received. Volunteer services, which are not considered necessary for operations to continue, are not reflected in the financial statements, as no objective basis is available to measure the value of such services.

Restricted and Unrestricted Support and Revenue – All contributions are considered to be available for unrestricted use unless specifically restricted by donor. Amounts received that are restricted or permanently restricted for future periods or donor-restricted for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, the restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as net assets released from restriction. If a restriction is fulfilled in the same period in which the contribution is received, the contribution is reported as unrestricted.

Federal Income Taxes – New Mexico Coalition for Literacy is a not-for-profit organization exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. As of June 30, 2011, the NMCL did not receive any unrelated business income. Accordingly, no liability or provision for federal income taxes is included in the accompanying financial statements.

In general, federal income tax returns are subject to a 3 year statute of limitation from the filing date. The NMCL believes it is no longer subject to examination by tax authorities for the years 2007 for federal.

Concentration of Credit Risk – The NMCL maintains cash balances at financial institutions which cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. The NMCL believes that no significant credit risk exists with respect to cash. At June 30, 2011, the NMCL's cash balance with this bank did not exceed the FDIC insured limit of \$250,000. The NMCL has not experienced any losses on these accounts.

Analysis for Impairment – Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In management's opinion, there is no impairment of such assets at June 30, 2011.

Management Estimates and Assumptions – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Advertising Costs - Advertising costs are expensed when incurred. Advertising expense was \$306 for the year ended June 30, 2011.

Subsequent Events - Management has evaluated subsequent events through December 5, 2011, the date of the financial statements were available to be issued.

3. INVESTMENT

In 1992, the NMCL transferred assets to the Albuquerque Community Foundation (the Foundation) in order to establish the New Mexico Coalition for Literacy Fund (Fund). The Foundation manages the funds under an endowment agreement in accordance with the articles of incorporation and bylaws of the Foundation. The NMCL is the sole beneficiary of the endowment agreement.

The Fund is to be used for support of the charitable purposes of the NMCL. Net income of the Fund, after investment expenses, is to be paid and distributed to the NMCL annually. The NMCL may, by written notice of the Foundation, elect to add all or part of the new income back to the principal of the fund. Distributions of principal from the Fund may be made upon written recommendation of the NMCL and approval of the Foundation.

If the Foundation ceases to be a charitable organization or if the Foundation proposes to dissolve, the assets of the Fund shall, after payment or making provision for payment of any liabilities properly chargeable to the fund, be distributed to the NMCL. If the NMCL is not then a qualified charitable organization, the assets of the Fund shall be distributed in such manner and to such organization or organizations in the New Mexico community as satisfies the requirements of a qualified charitable organization and serves purposes similar to those of the NMCL.

Endowment income consists of interest, dividends, and realized and unrealized gains and losses, and is reported net of related investment expenses in the Statement of Activities and Changes in Net Assets. The amount of expenses netted with income was \$215 for the year ended June 30, 2011.

In 2009, the Board resolved to earmark 5% of funds raised in subsequent years to the endowment. In 2011, the Board recorded a contribution of \$1,059 to the endowment.

4. ACCOUNTS RECEIVABLE

Accounts receivable arise from amounts due to the NMCL by granting agencies for allowable expenditures not reimbursed at year-end or individuals. Accounts receivable consisted of the following at June 30, 2011:

NM State Library	\$	60,496
Other		<u>3,927</u>
Total	\$	<u>64,423</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2011:

	Estimated Useful Life (Years)	
Furniture and fixtures	5	\$ 17,086
Computer equipment	5	38,293
Office equipment	5	<u>15,818</u>
Total		71,197
Less accumulated depreciation		<u>57,305</u>
Total		<u>\$ 13,892</u>

Depreciation expense for the year ended June 30, 2011 is \$3,433.

6. OPERATING LEASES

The NMCL is obligated under four leases. In January, 2000, the NMCL entered into a five year lease on a new office facility located in Santa Fe, New Mexico. The lease was renewed in May 2005 and again in May 2010 for five years. Current monthly lease payments for the building are \$2,372. Rental expense for the office facility was \$28,464 for the year ended June 30, 2011. In addition, the NMCL leases a color printer, a copier, and a postage machine.

The future minimum lease payments of the operating leases are as follows:

Year ending June 30:	Amount
2011	\$ 6,095
2012	4,831
2013	4,199
2014	4,199
2015	<u>700</u>
Total	<u>\$ 20,024</u>

7. LINE OF CREDIT

The NMCL has a line of credit with an annual renewal in June. The current line of credit is due in June 2012. Repayment of the loan is due at maturity. The interest rate is variable at 1% above the Wall Street Journal prime rate, and accrued interest is due monthly. The total line of credit is \$200,000. The balance outstanding at June 30, 2011 is \$0.

8. DEFERRED REVENUE

Deferred revenue at June 30, 2011 consists of the following:

Destination Literacy	\$	24,164
General/Fundraising		11,795
Corporate contributions		3,068
Million Dollars for Literacy		100
Membership dues		740
Registration		1,313
Sulica fund		<u>2,000</u>
Total deferred revenue	\$	<u>43,180</u>

9. IN-KIND DONATIONS

In-kind donations as of June 30, 2011 are as follow:

Professional services	\$	<u>26,198</u>
Total in-kind donations	\$	<u>26,198</u>

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the Investments in Endowment of \$16,438.

11. CONTINGENCIES

Grants and Contract Provisions

Grants and professional service contracts awarded to the NMCL are subject to the funding agencies' criteria, contract terms, and regulations under which expenditures may be charged. These costs are subject to audit under such terms, regulations, and criteria. Such audits may determine that certain costs incurred against the grants or professional service contracts do not comply with the established criteria that govern them. In such cases, the NMCL could be held responsible for repayments to the funding agency for the questioned costs or be subject to the reductions of future funding in the amount of the questioned costs. Management does not anticipate any material questioned costs for the grants and professional service contracts administered in the year under audit.

Economic Dependency

The NMCL received 94% of its revenue from a New Mexico Department of Cultural Affairs State Library Appropriation for the year ended June 30, 2011. The NMCL might not be able to continue as a going concern if the funding is not continued.

Risk Management

The NMCL is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. The NMCL has obtained commercial insurance coverage to protect itself against such losses.