THE LEARNING SOURCE AND
THE LEARNING SOURCE FOUNDATION
Lakewood, Colorado

FINANCIAL STATEMENTS
June 30, 2015 and 2014

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WAGNER BARNES & GRIGGS, PC

Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Learning Source and The Learning Source Foundation
Lakewood, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of The Learning Source (a nonprofit organization – the "Program") and The Learning Source Foundation (a nonprofit organization – the "Foundation") (together, considered the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2015 and 2014, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wagner Barnes & Griggs, PC

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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 17 through 20, and the accompanying schedule of expenditures of federal awards on page 21, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Wagner Barnes & Griggs, PC

Lakewood, Colorado
December 8, 2015

CONSOLIDATED FINANCIAL STATEMENTS

THE LEARNING SOURCE AND THE LEARNING SOURCE FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 317,802	$ 299,148
Beneficial interest in The Denver Foundation	240,676	218,839
Accounts receivable	225,446	151,895
Total current assets	783,924	669,882
BUILDING AND EQUIPMENT - NET OF ACCUMULATED DEPRECIATION	1,222,457	1,206,793
Total Assets	$ 2,006,381	$ 1,876,675
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 73,842	$ 64,029
Loan - current portion	22,112	21,159
Total current liabilities	95,954	85,188
LONG TERM LIABILITIES		
Loan - long-term portion	353,524	378,294
Total liabilities	449,478	463,482
NET ASSETS		
Unrestricted net assets	1,556,903	1,413,192
Total liabilities and net assets	$ 2,006,381	$ 1,876,675

These consolidated financial statements should be read only in connection with the accompanying notes to the consolidated financial statements.

THE LEARNING SOURCE AND THE LEARNING SOURCE FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2015 and 2014

	2015	2014
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Support		
Contributions	$ 121,810	$ 94,403
In-kind contributions	352,455	347,922
Governmental grants and contracts		
Federal	660,501	643,307
Local	881,721	726,344
Total support	2,016,487	1,811,976
Revenue		
Program revenue	40,308	52,281
Investment income	1,566	1,157
Gain on investments	5,755	27,811
Other	5,377	8,728
Total revenue	53,006	89,977
Total support and revenue	2,069,493	1,901,953
EXPENSES		
Program services	1,683,739	1,483,913
Supporting services		
Administrative	149,398	124,647
Fundraising	92,645	47,498
Total supporting services	242,043	172,145
Total expenses	1,925,782	1,656,058
CHANGE IN UNRESTRICTED NET ASSETS	143,711	245,895
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	1,413,192	1,167,297
UNRESTRICTED NET ASSETS - END OF YEAR	$ 1,556,903	$ 1,413,192

These consolidated financial statements should be read only in connection with the accompanying notes to the consolidated financial statements.

THE LEARNING SOURCE AND THE LEARNING SOURCE FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2015 and 2014

	2015				
		Supporting Services			
	Program Services	Admini-strative	Fund Raising	Subtotal	Total
Salaries	$ 981,573	$ 47,800	$ 49,487	$ 97,287	$ 1,078,860
Employee benefits	29,490	1,436	1,487	2,923	32,413
Payroll taxes	76,335	3,717	3,849	7,566	83,901
	1,087,398	52,953	54,823	107,776	1,195,174
Instructional materials and supplies	52,543	-	-	-	52,543
Donated services, supplies and facilities	352,455	-	-	-	352,455
Contract labor	1,692	-	-	-	1,692
Teacher stipends	17,001	-	-	-	17,001
Consumable supplies	2,697	-	-	-	2,697
Facilities	62,571	29,126	12,482	41,608	104,179
Dues and subscriptions	3,224	1,176	504	1,679	4,903
Professional services	39,280	14,319	6,137	20,456	59,736
Other operating expenses	20,791	14,951	6,408	21,359	42,150
Professional development	19,804	-	-	-	19,804
Interest	13,686	1,141	380	1,521	15,207
Depreciation	10,597	35,734	11,911	47,645	58,242
	191,343	96,445	37,822	134,267	325,610
Total Expenses	$ 1,683,739	$ 149,398	$ 92,645	$ 242,043	$ 1,925,782

These consolidated financial statements should be read only in connection with the accompanying notes to the consolidated financial statements.

THE LEARNING SOURCE AND THE LEARNING SOURCE FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2015 and 2014

	2014				
		Supporting Services			
	Program Services	Admini-strative	Fund Raising	Subtotal	Total
Salaries	$ 831,839	$ 47,065	$ 17,808	$ 64,873	$ 896,712
Employee benefits	35,493	2,008	760	2,768	38,261
Payroll taxes	70,306	3,978	1,505	5,483	75,789
	937,638	53,051	20,073	73,124	1,010,762
Instructional materials and supplies	29,774	-	-	-	29,774
Donated services, supplies and facilities	347,922	-	-	-	347,922
Contract labor	512	-	-	-	512
Teacher stipends	15,750	-	-	-	15,750
Consumable supplies	12,259	-	-	-	12,259
Facilities	38,559	17,948	7,692	25,640	64,199
Dues and subscriptions	1,524	556	238	794	2,318
Professional services	17,607	6,418	2,751	9,169	26,776
GED Testing	21,528	-	-	-	21,528
Other operating expenses	17,312	12,449	5,336	17,785	35,097
Professional development	16,012	-	-	-	16,012
Interest	16,919	1,410	470	1,880	18,799
Depreciation	10,597	32,815	10,938	43,753	54,350
	168,579	71,596	27,425	99,021	267,600
Total Expenses	$ 1,483,913	$ 124,647	$ 47,498	$ 172,145	$ 1,656,058

These consolidated financial statements should be read only in connection with the accompanying notes to the consolidated financial statements.

THE LEARNING SOURCE AND THE LEARNING SOURCE FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	$ 143,711	$ 245,895
Adjustments to reconcile change in net assets to		
net cash provided by operating activities		
Depreciation	58,242	54,350
Gain on investments	(5,755)	(27,811)
Effect of changes in operating assets and liabilities		
Accounts receivable	(73,551)	(77,470)
Accounts payable	9,813	(11,345)
Net cash provided by operating activities	132,460	183,619
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(73,906)	(12,994)
(Purchase) sale of investments	(16,082)	4,180
Net cash used by investing activities	(89,988)	(8,814)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on loan	(23,817)	(17,809)
Net cash used in financing activities	(23,817)	(17,809)
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,655	156,996
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	299,148	142,152
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 317,802	$ 299,148
CASH PAID FOR INTEREST	$ 15,207	$ 18,799

These consolidated financial statements should be read only in connection with
the accompanying notes to the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Learning Source (Program) is a Colorado nonprofit corporation. The Program provides economically and educationally motivated adults and families the opportunity to pursue educational goals which enhance their self-worth and ability to function productively in the family and community. The Program offers instruction in the core programs of: Adult Literacy, General Education Development, English for Speakers of Other Languages and Family Literacy.

The Learning Source Foundation (Foundation) was incorporated as a Colorado not-for-profit corporation for the purpose of supporting the operations of the Program. The Foundation and Program are considered to be under common control and management. Program Board members represent a controlling voting interest of the Foundation's Board of Directors. Accordingly, the accounts and operations of the Foundation and Program (collectively referred to as the Organization) are consolidated for financial reporting purposes.

The more significant accounting policies of the Program and Foundation are described below:

Basis of Accounting

The Program and Foundation use the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred. Expenditures for building and equipment are reflected as increases in assets.

Basis of Presentation

The Program and Foundation are 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. As of June 30, 2015 and 2014, the Organization has no temporarily restricted or permanently restricted net assets.

Inter-organizational balances and transactions have been eliminated for presentation on the consolidated statements of financial position and activities.

Contributions/Promises to Give

Contributions are recognized as unrestricted support when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor may be reported as increases in temporarily restricted net assets. Temporarily restricted contributions whose restrictions are met in the same reporting period that the contributions were received are reported as unrestricted support.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contracts for Service

Recognition of revenue from contracts for service corresponds approximately to the incurrence of expenses under the contract. Governmental contracts funded by Federal Financial Assistance are generally on a reimbursement basis.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable represents amounts due from the performance of services provided to other organizations and individuals and amounts owed under grants for reimbursable expenditures. The Organization uses the allowance method to assess collectability of current accounts receivable.

Fair Value Measurements

The Organization adopted "Fair Value Measurements" which among other things requires enhanced disclosures about investments that are measured and reported at fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 -Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 -Inputs to the valuation methodology include:
    - Quoted prices for similar assets or liabilities in active markets;
    - Quoted prices for identical or similar assets or liabilities in inactive markets;
    - Inputs other than quoted prices that are observable for the asset or liability;
    - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 -Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

- Investment held by The Denver Foundation: Valued as reported by the organization holding the investment.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statements of financial position.

The carrying amount reported in the statement of financial position for cash and cash equivalents, accounts receivable, promises to give, other assets, accounts payable, accrued liabilities and construction loan approximate fair value because of the immediate or short-term maturities of these financial instruments. The construction loan payable approximates fair value as the note bears interest at fixed or variable rates which approximates current market rates for notes with similar maturities and credit quality.

Cash Equivalents and Investments

For purposes of the statement of cash flows, the Program and Foundation consider cash deposits and highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Investments in debt securities and equity securities with readily determinable fair values are recorded at fair value. Investments in equity securities without readily determinable fair values are recorded at cost or, if received as a contribution, at estimated fair value upon receipt.

Building and Equipment

Building and equipment are recorded at cost except for those assets which have been contributed which are recorded at estimated fair value at the date of contribution. If donors stipulate how the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of buildings and equipment are recorded as unrestricted support. The Program capitalizes equipment with an initial cost greater than $500 and at least a five year useful life for office equipment

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and at least a three year useful life for computer equipment. Depreciation expense has been computed on the straight-line method over the estimated useful lives as follows:

Item	Years
Computer equipment	3-5
Office and audio visual equipment	5
Building and Improvements	30

Compensated Absences

Vacation pay accrues to all eligible employees and is recorded when earned. Employees are allowed to carryover a maximum of 120 hours at year end. Unused vacation over 120 hours is forfeited.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the Statement of Functional Expenses. Expenses directly identified with a functional area are charged to that area. If an expense affects more than one area, it is allocated to the various programs and other activities based upon each employee's function and time incurred or other reasonable management approved allocation method. Overhead expenses which pertain to Program Services are charged to the individual programs based upon the negotiated percentages in individual contracts. No indirect costs were charged to programs funded with Federal Awards during the years ended June 30, 2015 or 2014.

Income Taxes

The Program and Foundation are nonprofit Colorado corporations exempt from tax under the Internal Revenue Code Section 501(c)(3), and are not considered private foundations under Section 509(a) of the Internal Revenue Code. As such, donors are entitled to a charitable deduction for their contributions.

The Organization adopted "Accounting for Uncertainty in Income Taxes," which required the Organization to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. During the years ended June 30, 2015 and 2014, the Organization's management evaluated its tax positions to determine the existence of uncertainties, and did not note any matters that would require recognition or which may have an effect on its tax-exempt status.

The Organization is no longer subject to U.S. federal income tax audits on its Form 990 by taxing authorities for fiscal years ending prior to June 30, 2011. The years subsequent to these years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as it relates to the amount and/or timing of income, deductions and tax credits. Although the outcome of tax audits is uncertain, the Organization believes no issues would arise.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations

Revenue generated from the performance of contracts for federal and local government agencies represented approximately 77% and 75% of total revenue and support for the fiscal years ended June 30, 2015 and 2014, excluding in-kind contributions. In addition, as of June 30, 2015 and 2014, 71% and 73% of accounts receivable, respectively, was due from one vendor. Management does not expect that the Program's relationship with the governmental agencies will change in the near term. If the federal and local grants were not renewed, there would be a corresponding reduction in the cost of program services.

Subsequent Events

The Organization has performed an evaluation of subsequent events through December 8, 2015, which is the date the financial statements were available to be issued, and has considered any relevant matters in the preparation of the financial statements and footnotes. The Building has been listed for sale and it is currently under contract to close in 2015-2016 fiscal year.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents consisted of the following at June 30, 2015 and 2014:

	2015	2014
Cash on hand	$ -	$ 81
Demand deposits	33,237	68,581
Savings account	283,538	227,859
Money market funds	1,027	2,627
	$ 317,802	$ 299,148

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Investments				
Investment held by the Denver Foundation	$ -	$ -	$ 240,676	$ 240,676
	$ -	$ -	$ 240,676	$ 240,676

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Investments				
Investment held by the Denver Foundation	$ -	$ -	$ 218,839	$ 218,839
	$ -	$ -	$ 218,839	$ 218,839

The changes in the investments for which the Organization has used Level 3 inputs to determine the fair values are as follows:

	Level 3
Balance, July 1, 2013	$ 194,999
Sale of investments	(3,971)
Realized and unrealized gains, net	27,811
Balance, June 30, 2014	218,839
Purchase of investments	16,082
Realized and unrealized gains, net	5,755
Balance, June 30, 2015	$ 240,676

Cash, cash equivalents and investments are insured by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) or insurance coverage provided by the Program's and Foundation's securities safekeeping broker. As of June 30, 2015 and June 30, 2014, cash exceeded FDIC limits by $66,775 and $46,439, respectively.

The Foundation has transferred cash to The Denver Foundation to create a Non-Profit Advised Fund called The Learning Source Foundation Fund. The Foundation has retained control over the distribution of assets. Distributions are requested in writing by the Foundation as approved by the advisory committee. The investment in The Denver Foundation has been reported as a beneficial interest in The Denver Foundation at June 30, 2015 and 2014.

NOTE 3 - BUILDING AND EQUIPMENT

As of June 30, 2015 and 2014, building and equipment is summarized as follows:

	2015	2014
Land	$ 270,000	$ 270,000
Building	359,236	359,236
Office equipment	36,079	28,614
Computer equipment	163,830	97,389
Audio visual equipment	186	186
Building improvements	833,586	833,586
	1,662,917	1,589,011
Accumulated depreciation	(440,460)	(382,218)
	$ 1,222,457	$ 1,206,793

NOTE 4 - LOAN PAYABLE

During June 2010, the Organization entered into a note agreement for a draw down promissory note with a borrowing base of $500,000. The note required monthly interest payments until maturity during July 2011. The note bore interest at a fixed rate of 5.50% until July 2010 at which time the rate became variable based upon the Wall Street Journal U.S. Prime Rate plus 2.00%. The note is secured by the Program's and Foundation's depository accounts held at the financial institution through which the loan was issued and a deed of trust on the building held by the Foundation. In July 2011, the note was extended with a borrowing base of $500,000. The note bears interest at a fixed rate of 6.00% until August 2016 at which time the rate becomes variable based upon the weekly average yield on U.S. Treasury securities. As of June 30, 2015, the loan has a balance of $375,636. On January 7, 2013, the Organization entered into a loan modification and fixed the interest rate at 4.55% through 2018. The loan matures on August 5, 2021. The principal balance was increased $921 due to the fees incurred for the loan modification being rolled into the principal balance. During 2015, the Organization made additional principal payments of $805 per month at the discretion of the Board. The Organization anticipates making the additional principal payments until the loan matures in 2021. As a result, the payment schedule has been modified to reflect the additional principal payments.

	Principal	Interest	Total
2016	$ 22,112	$ 16,912	$ 39,024
2017	23,200	15,824	39,024
2018	24,293	14,731	39,024
2019	25,438	13,586	39,024
2020	26,603	12,421	39,024
2021	253,990	12,867	266,857
	$ 375,636	$ 86,341	$ 461,977

NOTE 5 - DONATED SERVICES, SUPPLIES AND FACILITIES

A substantial portion of the Program's instruction is provided by volunteer teachers. The value of these donated services is based upon rates paid to salaried instructors and the estimated fair value for other donated goods and services which have been reflected in the Statement of Activities as an expense. An equivalent amount is recorded as in-kind contributions. The value of donated office and classroom facilities has been reflected in the financial statements based on the cost per square footage for rental of similar property.

The details of recorded program service donated materials and services are summarized as follows:

	2015	2014
Personnel	$ 136,282	$ 147,386
Occupancy	216,173	200,536
	$ 352,455	$ 347,922

NOTE 6 - CONTINGENCIES

The Program provides services on behalf of the Colorado Department of Education (CDE) on a contractual basis. Such contracts are subject to review and audit by the CDE. Such audits may lead to requests for reimbursements to CDE for expenditures disallowed under the terms of the contract. Management believes disallowances, if any, would be immaterial.

SUPPLEMENTARY INFORMATION

THE LEARNING SOURCE
SCHEDULES OF FINANCIAL POSITION
June 30, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 316,775	$ 296,521
Accounts receivable	225,446	151,895
Total current assets	542,221	448,416
BUILDING AND EQUIPMENT - NET OF ACCUMULATED DEPRECIATION	737,610	711,349
Total Assets	$ 1,279,831	$ 1,159,765
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 73,842	$ 64,029
Loan - current portion	22,112	21,159
Total current liabilities	95,954	85,188
LONG TERM LIABILITIES		
Loan - long-term portion	353,524	378,294
Total liabilities	449,478	463,482
NET ASSETS		
Unrestricted net assets	830,353	696,283
Total liabilities and net assets	$ 1,279,831	$ 1,159,765

THE LEARNING SOURCE
SCHEDULES OF ACTIVITIES
Years Ended June 30, 2015 and 2014

	2015	2014
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Support		
Contributions	$ 121,810	$ 94,403
In-kind contributions	352,455	347,922
Governmental grants and contracts		
Federal	660,501	643,307
Local	881,721	726,344
Total support	2,016,487	1,811,976
Revenue		
Program revenue	40,308	52,281
Investment income	690	232
Other	5,377	8,728
Total revenue	46,375	61,241
Total support and revenue	2,062,862	1,873,217
EXPENSES		
Program services	1,697,834	1,473,316
Supporting services		
Administrative	141,639	121,221
Fundraising	89,319	46,029
Total supporting services	230,958	167,250
Total expenses	1,928,792	1,640,566
CHANGE IN UNRESTRICTED NET ASSETS	134,070	232,651
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	696,283	463,632
UNRESTRICTED NET ASSETS - END OF YEAR	$ 830,353	$ 696,283

THE LEARNING SOURCE FOUNDATION
SCHEDULES OF FINANCIAL POSITION
June 30, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,027	$ 2,627
Beneficial interest in The Denver Foundation	240,676	218,839
Total current assets	241,703	221,466
BUILDING AND EQUIPMENT - NET OF ACCUMULATED DEPRECIATION	484,847	495,444
Total Assets	$ 726,550	$ 716,910
NET ASSETS		
Unrestricted net assets	726,550	716,910
Total net assets	$ 726,550	$ 716,910

THE LEARNING SOURCE FOUNDATION
SCHEDULES OF ACTIVITIES
Years Ended June 30, 2015 and 2014

	2015	2014
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Gain on investments	$ 5,755	$ 27,811
Contribution from The Learning Source	24,691	-
Investment Income	876	925
Total support and revenue	31,322	28,736
EXPENSES		
Depreciation	10,597	10,597
Other operating	11,085	4,895
Total expenses	21,682	15,492
CHANGE IN UNRESTRICTED NET ASSETS	9,640	13,244
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	716,910	703,666
UNRESTRICTED NET ASSETS - END OF YEAR	$ 726,550	$ 716,910

THE LEARNING SOURCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures	
U.S. Department of Education			
Passed through Colorado Department of Education			
Adult Education - State Grant Program (#5002)	84.002	$ 586,195	*
Adult Education - State Grant Program (#6002)	84.002	74,306	*
	Total	$ 660,501	

* Major Program

Method of Accounting

The schedule of expenditures of federal awards has been prepared on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts in or used in the preparation of the basic financial statements.

Subrecipient

The Learning Source is a subrecipient of the Colorado Department of Education. The Learning Source had no subrecipients related to the grant passed through the Colorado Department of Education for the year ended June 30, 2015.

WAGNER BARNES & GRIGGS, PC

Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
The Learning Source and The Learning Source Foundation
Lakewood, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Learning Source (a nonprofit organization – The "Program") and the Learning Source Foundation (a nonprofit organization – the "Foundation") (together, considered the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in Finding 2015-01 in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Organization in a separate letter dated December 8, 2015.

Wagner Barnes & Griggs, PC

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Organization’s Response to Findings

The Organization’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wagner Barnes & Griggs, PC

Lakewood, Colorado
December 8, 2015

WAGNER BARNES & GRIGGS, PC

Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
The Learning Source
Lakewood, Colorado

Report on Compliance for Each Major Federal Program

We have audited The Learning Source's ("Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2015. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Wagner Barnes & Griggs, PC

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Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wagner Barnes & Griggs, PC

Lakewood, Colorado
December 8, 2015

The Learning Source
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

1. An unqualified opinion was issued on The Learning Source's basic financial statements.

2. Internal control over financial reporting

   a) Material weaknesses identified? ______Yes ___X___No

   b) Significant deficiencies identified? __X___Yes ______ No

3. Noncompliance material to financial statements noted? ______Yes ___X___No

Federal Awards

1. Internal control over major programs:

   a) Material weaknesses identified? ______Yes ___X___No

   b) Significant deficiencies identified that are not considered to be material weaknesses? ______Yes ___X___No

2. An unqualified opinion was issued on compliance for the major federal award programs for The Learning Source.

3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ______Yes ___X___No

4. Identification of Major programs:

   a) CFDA 84.002 Adult Education – State Grant Program

5. Dollar threshold used to distinguish between type A and type B programs: $300,000

   a) Does the Auditee qualify as a low risk auditee? ______Yes ___X___No

The Learning Source
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2015

Section II - Financial Statement Findings

The following is a significant deficiency related to the audit of The Learning Source's basic financial statements that is required to be reported under *Government Auditing Standards.*

Finding 2015-01

Control Activities

Reporting
Significant Deficiency

Criteria or specific requirement: Adequate control activities serve as mechanisms for managing the achievement of the organization's operations, reporting and compliance objectives. For an internal control system to be effective, adequate control activities need to be in place.

Condition: Effective control activities of the organization were not in place to allow the organization to achieve desired timeliness in financial statement reporting.

Context: During testing for the period under audit, we noted significant delays in the depositing of cash for student fees collected at remote teaching facilities.

Effect: Delays in depositing the cash collected for student fees could result in misappropriation of the Organization's assets and delays in recording revenue.

Cause: Management responsible for monitoring and compliance with internal controls, as they relate to remote locations, did not have an effective system in place to monitor the effectiveness of the control. The individual(s) responsible for collecting and depositing the cash appear to not have an adequate understanding of the established internal control policy for cash deposits, and their role in complying with the control.

Recommendation: We recommend that The Learning Source review and improve existing control activities related to the collection of cash at the remote locations by considering a central location for registration (on-line or a physical location) or stricter monitoring and enforcement of the existing policy.

Views of responsible officials and planned corrective action: The Learning Source Board of Directors and Management, after review of the existing controls regarding collection of cash in remote locations, and determining that utilization of a central location for registration would be prohibitive to customers and the agency, will be creating a designated checking account at Chase Bank allowing deposit of monies to take place directly by program staff with the same safeguards currently implemented. This will keep the same controls in place, but reduces collection to deposit time. All deposits will be accessible in real time, via internet banking access, to administration and key personnel in order to oversee cash collections and deposits in accordance with current policies.