

LITERACY, INC.

**Financial Statements
for year ended
June 30, 2020**

Independent Auditor's Report

To the Board of Directors
Literacy, Inc.

We have audited the accompanying financial statements of Literacy, Inc. which comprise the statement of financial position as of June 30, 2020 and June 30, 2019 and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 audits 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 Literacy, Inc. as of June 30, 2020 and June 30, 2019 and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

November 9, 2020

Condon O'Meara McGinty & Donnelly, LLP

LITERACY, INC.

Statement of Financial Position

Assets

	<u>June 30</u>	
	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$2,823,926	\$1,787,330
Investment in U.S. Treasury Bills, at fair value	249,922	-
Contributions and grants receivable, net	788,100	1,113,999
Accounts receivable, net	142,741	45,920
Prepaid expenses	<u>26,251</u>	<u>44,577</u>
Total current assets	4,030,940	2,991,826
Contributions and grants receivable, net of current portion	225,000	150,000
Property and equipment, at cost, net	1,787	2,812
Security deposit	<u>15,670</u>	<u>13,850</u>
Total assets	<u>\$4,273,397</u>	<u>\$3,158,488</u>

Liabilities and Net Assets

Current liabilities		
Accounts payable and accrued expenses	\$ 144,453	\$ 159,907
Agency funds	<u>176,847</u>	<u>81,500</u>
Total current liabilities	321,300	241,407
Loan payable	<u>491,107</u>	<u>-</u>
Total liabilities	<u>812,407</u>	<u>241,407</u>
Net assets		
Without donor restrictions	1,893,694	1,608,519
With donor restrictions	<u>1,567,296</u>	<u>1,308,562</u>
Total net assets	<u>3,460,990</u>	<u>2,917,081</u>
Total liabilities and net assets	<u>\$4,273,397</u>	<u>\$3,158,488</u>

See notes to financial statements.

LITERACY, INC.

Statement of Functional Expenses
Year Ended June 30, 2020
(with Summarized Comparative Financial Information
for the Year Ended June 30, 2019)

	<u>2020</u>			<u>2019</u>	
	<u>Program</u> <u>Services</u>	<u>Supporting Activities</u>		<u>Total</u>	<u>Total</u>
		<u>Management</u> <u>and</u> <u>General</u>	<u>Fund-</u> <u>Raising</u>		
Salaries	\$ 1,896,098	\$ 123,561	\$ 350,020	\$ 2,369,679	\$ 2,109,433
Payroll taxes and benefits	282,275	18,395	52,108	352,778	346,547
Consultants	11,568	2,778	46,300	60,646	44,392
Professional fees	189,476	2,759	7,816	200,051	241,207
Program expenses	189,259	112	6,935	196,306	311,876
Office supplies	14,225	927	2,626	17,778	13,373
Staff development & training	2,572	168	475	3,215	7,164
Occupancy	81,947	5,340	15,128	102,415	101,396
Telephone and internet	5,085	331	939	6,355	7,238
Printing and publications	12,955	844	2,392	16,191	14,841
Depreciation	820	54	151	1,025	1,236
Insurance	8,600	560	1,588	10,748	9,019
Payroll service	2,794	182	516	3,492	6,616
Miscellaneous	37,853	1,444	35,780	75,077	111,024
Sub-total without in-kind contributions	<u>2,735,527</u>	<u>157,455</u>	<u>522,774</u>	<u>3,415,756</u>	<u>3,325,362</u>
In-kind contributions					
Contributed legal services	12,081	787	2,230	15,098	35,222
Contributed professional services	12,053	785	2,225	15,063	122,700
Contributed program event support	45,994	-	-	45,994	37,250
Contributed books and materials	86,899	-	-	86,899	30,456
Sub-total in-kind contributions	<u>157,027</u>	<u>1,572</u>	<u>4,455</u>	<u>163,054</u>	<u>225,628</u>
Total	<u>\$ 2,892,554</u>	<u>\$ 159,027</u>	<u>\$ 527,229</u>	<u>\$ 3,578,810</u>	<u>\$ 3,550,990</u>

See notes to financial statements.

LITERACY, INC.

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Supporting Activities		Total
		Management and General	Fund- Raising	
Salaries	\$ 1,666,153	\$ 145,778	\$ 297,502	\$ 2,109,433
Payroll taxes and benefits	273,723	23,949	48,875	346,547
Consultants	4,707	2,974	36,711	44,392
Professional fees	229,467	3,861	7,879	241,207
Program expenses	306,550	174	5,152	311,876
Office supplies	10,563	924	1,886	13,373
Staff development & training	5,659	495	1,010	7,164
Occupancy	80,089	7,007	14,300	101,396
Telephone and internet	5,717	500	1,021	7,238
Printing and publications	11,722	1,026	2,093	14,841
Depreciation	976	85	175	1,236
Insurance	7,124	623	1,272	9,019
Payroll service	5,226	457	933	6,616
Miscellaneous	27,039	24,681	59,304	111,024
Sub-total without in-kind contributions	2,634,715	212,534	478,113	3,325,362
In-kind contributions				
Contributed legal services	27,820	2,434	4,968	35,222
Contributed professional services	89,669	6,752	26,279	122,700
Contributed program event support	37,250	-	-	37,250
Contributed books and materials	30,456	-	-	30,456
Sub-total in-kind contributions	185,195	9,186	31,247	225,628
Total	\$ 2,819,910	\$ 221,720	\$ 509,360	\$ 3,550,990

See notes to financial statements.

LITERACY, INC.

Statement of Cash Flows

	Year Ended	
	June 30	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Increase in net assets	\$ 543,909	\$ 503,682
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	1,025	1,236
Donated stock received	(91,699)	(59,105)
Sale of donated stock	91,699	59,105
(Increase) decrease in assets		
Contributions and grants receivable, net	250,899	(595,808)
Accounts receivable, net	(96,821)	197,680
Prepaid expenses	18,326	(8,754)
Security deposit	(1,820)	-
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(15,454)	64,496
Agency funds	<u>95,347</u>	<u>(29,077)</u>
Net cash provided by operating activities	<u>795,411</u>	<u>133,455</u>
Cash flows from investing activities		
Proceeds from sales of investments	630,390	-
Purchases of investments	<u>(880,312)</u>	<u>-</u>
Net cash (used in) investing activities	<u>(249,922)</u>	<u>-</u>
Cash flows provided by financing activities		
Proceeds from loan payable	<u>491,107</u>	<u>-</u>
Net increase in cash and cash equivalents	1,036,596	133,455
Cash and cash equivalents, beginning of year	<u>1,787,330</u>	<u>1,653,875</u>
Cash and cash equivalents, end of year	<u>\$2,823,926</u>	<u>\$1,787,330</u>

See notes to financial statements.

LITERACY, INC.

Notes to Financial Statements June 30, 2020

Note 1 – Nature of organization

Literacy, Inc. (“LINC”) harnesses the power that exists in every community to make literacy a value and right of all children. Our children’s educational success is the path out of poverty and the key to achievement. LINC’s mission is to engage families and community members to support young readers in high need neighborhoods.

Note 2 – Summary of significant accounting policies

Financial reporting

The following is a summary of LINC’s net assets:

- Without donor restrictions

Net assets without donor restrictions consist of amounts that can be spent at the discretion of LINC.

- With donor restrictions

- Temporary donor restrictions

- Net assets with temporary donor restrictions consist of contributions that are restricted by the donor for a specific project or purpose or relate to future periods.

- Perpetual donor restrictions

- Net assets with perpetual donor restrictions are subject to donor imposed restrictions requiring that they be maintained in perpetuity.

During the year ending June 30, 2018, in connection with the termination of its operations, Learning Leaders, Inc., a New York corporation with tax-exempt status, transferred \$34,000 of permanently restricted funds to LINC. LINC initially classified the funds as assets with perpetual donor restrictions, meaning that only the investment returns could be spent. During fiscal year 2019, LINC applied to the New York State Attorney General for permission to release the funds from restriction. This request was granted and LINC released the funds from restriction, adding them to net assets without donor restrictions. As of June 30, 2019 there were no net assets with perpetual donor restrictions.

Contributions

LINC records contributions as revenue without donor restrictions unless the donor stipulates a time or limits the use of the donated assets.

LITERACY, INC.**Notes to Financial Statements (continued)
June 30, 2020****Note 2 – Summary of significant accounting policies (continued)**Contributions (continued)

Contributions received with donor stipulations that limit the use of the donated assets are reported as support with perpetual or temporary donor restrictions. When a donor stipulation regarding a contribution with temporary donor restriction expires – that is, when a stipulated time restriction ends or the purpose for the restriction is accomplished – net assets with temporary donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions of investments are recorded at fair value on the date of the gift.

Cash equivalents

LINC considers highly liquid investments with original maturities of 90 days or less to be cash equivalents. Included in cash equivalents are money market funds.

Investments

Investments are recorded at fair value based on publicly quoted market prices.

Fair value measurements

Fair value measurements establish a hierarchy that prioritizes the inputs used to measure fair value into three levels. LINC's investments are measured using Level 1 inputs, which are defined as quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

Allowance for doubtful accounts

LINC has an allowance for doubtful accounts of \$5,000 and \$20,000, respectively, as of June 30, 2020 and June 30, 2019, for grants, contributions and accounts receivable that may not be collectible. Such estimates are based on management's experience, the aging of the receivables, subsequent receipts and the current economic conditions.

Property and equipment

Acquisitions of property and equipment in excess of \$1,000 and with an estimated useful life of longer than a year are capitalized and recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

Agency funds

LINC received funds from other organizations that require LINC to act as an agent and to spend the funds in accordance with the other organization's requirements. These funds are recorded as a liability on the statement of financial position until the funds are spent.

LITERACY, INC.**Notes to Financial Statements (continued)**
June 30, 2020**Note 2 – Summary of significant accounting policies (continued)**Functional expenses

The cost of providing the various programs and other activities has been summarized on a functional basis. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Natural expenses attributable to more than one functional expense category are allocated using a cost allocation techniques primarily consisting of salary and wages and time and effort reporting.

In-kind contributions

During the 2020 and 2019 fiscal years, LINC received legal services, professional services, program event support and contributions of books and materials. These goods and services were an integral part of the activities of LINC and would have had to be purchased by LINC if they had not been donated. The goods and services, totaling \$163,054 in 2020 and \$225,628 in 2019, were recorded at the fair value based on what it would have cost LINC to purchase them independently and have been reflected as support and expenses in the statement of activities.

Concentrations of credit risk

LINC's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents, investments and contributions, grants and accounts receivable. LINC places its cash and cash equivalents with what it believes to be quality financial institutions. LINC invests in U.S. Treasury Bills. LINC's contributions, grants and accounts receivable consist principally of amounts due from foundations, corporations and government sources. LINC believes no significant concentrations of credit risk exist with respect to its cash, cash equivalents, investments and contributions, grants and accounts receivable.

Use of estimates

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 the amounts reported in the financial statements. Actual results could differ from these estimates.

Risks and uncertainties

On March 13, 2020, President Trump declared a national emergency due to extraordinary circumstances resulting from the coronavirus. The economic impact of the coronavirus on LINC's future financial operations is not readily determinable.

Subsequent events

LINC has evaluated events and transactions for potential recognition or disclosure through November 9, 2020, which is the date the financial statements were available to be issued.

LITERACY, INC.

Notes to Financial Statements (continued)
June 30, 2020**Note 3 – Liquidity and availability of financial assets**

LINC's working capital and cash flows have seasonal variations during the year attributable to cash receipts from contributions, government grants, special events and other items.

The following is a summary of LINC's financial assets as of June 30, 2020 and June 30, 2019 that are available for general use within one year of the statement of financial position date:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,823,926	\$ 1,787,330
Investment in U.S. Treasury Bills, at fair value	249,922	-
Contributions and grants receivable expected to be collected in one year, net	788,100	1,113,999
Accounts receivable, net	<u>142,741</u>	<u>45,920</u>
Total financial assets	<u>\$ 4,004,689</u>	<u>\$ 2,947,249</u>

In addition, LINC has a \$200,000 line of credit (see note 9) that can be utilized during the fiscal year if necessary.

Note 4 – Contributions, grants and accounts receivable

Contributions, grants and accounts receivable consist of the following as of June 30, 2020 and June 30, 2019 and are due as follows:

	<u>2020</u>	<u>2019</u>
Foundations and corporations	\$ 736,050	\$ 336,500
City of New York	186,700	555,089
State of New York	65,500	250,000
Event	29,850	142,410
Fees for services	89,000	45,920
Individuals and other receivables	<u>53,741</u>	<u>-</u>
Sub-total	<u>1,160,841</u>	<u>1,329,919</u>
Due within one year	935,841	1,179,919
Due within two years	<u>225,000</u>	<u>150,000</u>
Sub-total	1,160,841	1,329,919
Less: allowance for doubtful accounts	<u>5,000</u>	<u>20,000</u>
Total	<u>\$1,155,841</u>	<u>\$1,309,919</u>

LITERACY, INC.

Notes to Financial Statements (continued)
June 30, 2020**Note 5 – Property and equipment, at cost, net**

A summary of property and equipment and related accumulated depreciation as of June 30, 2020 and June 30, 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Office furniture and equipment	\$ 13,631	\$ 13,631
Program equipment	<u>10,750</u>	<u>10,750</u>
Sub-total	24,381	24,381
Less: accumulated depreciation	<u>22,594</u>	<u>21,569</u>
Net property and equipment	\$ 1,787	\$ 2,812

Note 6 – Paycheck Protection Program loan payable

On May 15, 2020, LINC received \$491,107 under the Paycheck Protection Program (“PPP”) from the Small Business Administration which is a business loan program established under the Coronavirus Aid, Relief, and Economic Security Act. LINC has recorded the proceeds as a liability until the loan is, in part or wholly, forgiven and LINC is legally released from having to repay the loan. LINC believes it has spent all of the proceeds in accordance with the terms of the PPP loan program and expects to have the loan forgiven in its entirety during the 2021 fiscal year. Any amounts not forgiven are subject to interest at a fixed rate of 1% for a twenty-four month period. LINC has classified the PPP loan as a long-term liability on the fiscal year 2020 statement of financial position.

Note 7 – Net assets with temporary and perpetual donor restrictions

The following is a summary of the activity of the net assets with temporary and perpetual donor restrictions for the years ended June 30, 2020 and June 30, 2019:

<u>Temporary</u> <u>Program/Purpose</u>	<u>Balance,</u> <u>June 30, 2019</u>	<u>Contributions</u> <u>and</u> <u>Grants</u>	<u>Net Assets</u> <u>Released</u> <u>from</u> <u>Restrictions</u>	<u>Balance,</u> <u>June 30, 2020</u>
Mimi Levin Lieber Award	\$ 7,496	\$ -	\$ (750)	\$ 6,746
Literacy support/timing	<u>1,301,066</u>	<u>1,400,550</u>	<u>(1,141,066)</u>	<u>1,560,550</u>
Total	<u>\$ 1,308,562</u>	<u>\$1,400,550</u>	<u>\$(1,141,816)</u>	<u>\$ 1,567,296</u>

<u>Temporary</u> <u>Program/Purpose</u>	<u>Balance,</u> <u>June 30, 2018</u>	<u>Contributions</u> <u>and</u> <u>Grants</u>	<u>Net Assets</u> <u>Released</u> <u>from</u> <u>Restrictions</u>	<u>Balance,</u> <u>June 30, 2019</u>
Mimi Levin Lieber Award	\$ 7,496	\$ -	\$ -	\$ 7,496
Literacy support/timing	<u>1,035,512</u>	<u>1,201,066</u>	<u>(935,512)</u>	<u>1,301,066</u>
Sub-total	1,043,008	1,201,066	(935,512)	1,308,562
Perpetual	<u>34,000</u>	<u>-</u>	<u>(34,000)</u>	<u>-</u>
Total	<u>\$ 1,077,008</u>	<u>\$1,201,066</u>	<u>\$ (969,512)</u>	<u>\$ 1,308,562</u>

LITERACY, INC.

Notes to Financial Statements (continued)
June 30, 2020

Note 8 – Mimi Levin Lieber Award

In connection with its 10th Anniversary Gala, LINC established and solicited donations for the Mimi Levin Lieber Award fund. Additional contributions to the fund were made in subsequent years. The contributions are to be used to provide cash awards to community partners in recognition of their efforts in support of early literacy. The awards are named in honor of LINC's Founder, Mimi Levin Lieber. The contributions are recorded as net assets with temporary donor restrictions, and the interest earned on such funds is without donor restrictions.

Note 9 – Line of credit

LINC has available a \$200,000 revolving line of credit which is up for renewal annually. Any borrowings on the line of credit require interest at the bank's prime rate plus 2.0%. As of June 30, 2020 the interest rate was 5.25%. The line of credit is secured by certain of LINC's personal property, as outlined in the agreement. As of June 30, 2020, there were no outstanding borrowings.

Note 10 – Office lease agreements

LINC leases office space under three lease agreements. In addition to the monthly rent payments totaling \$7,535, LINC is also charged for electricity, storage and use of a conference room. In connection with the lease agreements, LINC has paid security deposits totaling \$15,670. Occupancy expense for the years ended June 30, 2020 and June 30, 2019 was \$102,415 and \$101,396, respectively. The leases expire at various dates through September 30, 2023.

The following is a summary of the future rent payments as of June 30, 2020:

<u>Fiscal year</u>	<u>Amount</u>
2021	\$ 85,845
2022	72,120
2023	72,120
2024	<u>18,030</u>
Total	<u>\$ 248,115</u>

Note 11 – Retirement plan

LINC maintains a tax-deferred annuity plan (the "Plan") for all eligible employees. Employees can make voluntary contributions to the Plan in accordance with Internal Revenue Code regulations. LINC makes discretionary contributions to the Plan up to 2% of employee compensation. The Plan expense for the years ended June 30, 2020 and June 30, 2019 was \$38,626 and \$32,852, respectively.

LITERACY, INC.**Notes to Financial Statements (continued)**
June 30, 2020**Note 12 – Tax status**

LINC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). In addition, LINC has been determined by the Internal Revenue Service to be a publicly supported organization and not a private foundation within the meaning of Section 509(a)(1) of the Code and qualifies for the maximum charitable deduction for donors.