

LITERACY, INC.

**Financial Statements
for year ended
June 30, 2017**

Independent Auditor's Report

To the Board of Directors
Literacy, Inc.

We have audited the accompanying financial statements of Literacy, Inc. ("LINC") which comprise the statement of financial position as of June 30, 2017 and the related statements of activities, functional expenses 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 in the first paragraph on the previous page present fairly, in all material respects, the financial position of Literacy, Inc. as of June 30, 2017 and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited LINC's 2016 financial statements, and our report dated November 30, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Conlon O'Meara McGuffey & Donnelly LLP

LITERACY, INC.

Statement of Financial Position

Assets

	June 30	
	2017	2016
Cash and cash equivalents	\$1,703,583	\$1,438,974
Contributions and grants receivable, net	337,283	638,076
Prepaid expenses	36,603	27,820
Property and equipment, at cost, net	7,973	12,098
Security deposit	10,800	10,200
Total assets	\$2,096,242	\$2,127,168

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 80,467	\$ 114,496
Agency funds	181,250	-
Total liabilities	261,717	114,496

Net assets

Unrestricted	858,929	854,226
Temporarily restricted	975,596	1,158,446
Total net assets	1,834,525	2,012,672
Total liabilities and net assets	\$2,096,242	\$2,127,168

See notes to financial statements.

LITERACY, INC.

Statement of Activities

	Year Ended June 30			
	2017		2016	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u> <u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u> <u>Total</u>
Support and revenue				
Foundation and corporate contributions	\$ 226,435	\$ 768,100	\$ 337,688	\$ 1,082,500
Individual contributions	185,120	-	126,963	1,950
Governmental contributions	562,233	75,000	235,299	66,500
Special event (net of direct costs of \$138,583 in 2017 and \$154,999 in 2016)	480,149	-	401,806	-
In-kind goods and services	123,465	-	90,101	-
Other revenue	60,968	-	20,284	-
Net assets released from restrictions	1,025,950	(1,025,950)	1,141,500	(1,141,500)
Total support and revenue	<u>2,664,320</u>	<u>2,481,470</u>	<u>2,353,641</u>	<u>9,450</u>
				<u>2,363,091</u>
Expenses				
Program services	2,085,456	-	1,829,695	-
Supporting services				
Management and general	133,986	-	134,801	-
Fund-raising	440,175	-	337,761	-
Total supporting services	<u>574,161</u>	<u>574,161</u>	<u>472,562</u>	<u>472,562</u>
Total expenses	<u>2,659,617</u>	<u>2,659,617</u>	<u>2,302,257</u>	<u>2,302,257</u>
Increase (decrease) in net assets	4,703	(182,850)	51,384	9,450
Net assets, beginning of year	<u>854,226</u>	<u>2,012,672</u>	<u>802,842</u>	<u>1,148,996</u>
Net assets, end of year	<u>\$ 858,929</u>	<u>\$1,834,525</u>	<u>\$ 854,226</u>	<u>\$ 1,158,446</u>
				<u>\$2,012,672</u>

See notes to financial statements.

LITERACY, INC.

Statement of Functional Expenses
Year Ended June 30, 2017
(with Summarized Comparative Financial Information
for the Year Ended June 30, 2016)

	<u>2017</u>				<u>2016</u>
		<u>Supporting Services</u>			
	<u>Program</u>	<u>Management</u>	<u>Fund-</u>	<u>Total</u>	<u>Total</u>
	<u>Services</u>	<u>and</u>	<u>Raising</u>		
		<u>General</u>			
Salaries	\$ 1,232,287	\$ 94,163	\$ 250,320	\$ 1,576,770	\$ 1,437,878
Payroll taxes and benefits	194,055	14,828	39,419	248,302	201,109
Consultants	16,471	398	67,770	84,639	63,533
Professional fees	252,514	2,762	7,341	262,617	235,715
Program expenses	192,722	-	3,635	196,357	122,171
Office supplies	15,627	1,194	3,174	19,995	30,779
Staff development & training	3,301	252	671	4,224	3,215
Occupancy	60,105	4,593	12,209	76,907	70,446
Telephone and internet	4,695	359	954	6,008	5,613
Printing and publications	11,514	880	2,339	14,733	8,262
Depreciation	3,223	249	653	4,125	4,196
Insurance	6,096	466	1,238	7,800	7,083
Payroll service	5,037	385	1,023	6,445	6,134
Miscellaneous	13,934	1,908	11,388	27,230	16,022
Sub-total without					
in-kind contributions	<u>2,011,581</u>	<u>122,437</u>	<u>402,134</u>	<u>2,536,152</u>	<u>2,212,156</u>
In-kind contributions					
Contributed legal services	56,226	11,549	6,994	74,769	5,820
Contributed professional services	4,107	-	31,047	35,154	49,751
Contributed books and materials	13,542	-	-	13,542	34,530
Sub-total in-kind contributions	<u>73,875</u>	<u>11,549</u>	<u>38,041</u>	<u>123,465</u>	<u>90,101</u>
Total	<u>\$ 2,085,456</u>	<u>\$ 133,986</u>	<u>\$ 440,175</u>	<u>\$ 2,659,617</u>	<u>\$ 2,302,257</u>

See notes to financial statements.

LITERACY, INC.

Statement of Cash Flows

	Year Ended June 30	
	2017	2016
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (178,147)	\$ 60,834
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	4,125	4,196
Donated stock received	65,178	(9,839)
Sale of donated stock	(65,178)	9,839
(Increase) decrease in assets		
Contributions and grants receivable	300,793	59,001
Prepaid expenses	(8,783)	(12,445)
Security deposit	(600)	(2,000)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(34,029)	36,770
Agency funds	181,250	-
Net cash provided by operating activities	264,609	146,356
Cash flows (used in) investing activities		
Purchases of property and equipment	-	(633)
Net increase in cash and cash equivalents	264,609	145,723
Cash and cash equivalents, beginning of year	1,438,974	1,293,251
Cash and cash equivalents, end of year	\$1,703,583	\$ 1,438,974

See notes to financial statements.

LITERACY, INC.**Notes to Financial Statements****June 30, 2017****Note 1 – Nature of organization**

Literacy, Inc. (“LINC”) works in partnership with schools, families and community organizations, to provide low-income children in New York City with the support they need to read on grade level by third grade and sustain that literacy achievement.

Note 2 – Summary of significant accounting policies**Net assets**

Unrestricted net assets consist of amounts that can be spent at the discretion of LINC.

Temporarily restricted net assets consist of contributions that are restricted by the donor for a specific project or purpose or relate to future periods.

Contributions

LINC records contributions as unrestricted revenue unless the donor stipulates a time or limits the use of the donated assets.

Contributions received with donor stipulations that limit the use of the donated assets are reported as permanently or temporarily restricted support. When a donor stipulation regarding a temporarily restricted contribution expires – that is, when a stipulated time restriction ends or the purpose for the restriction is accomplished – temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of stock 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 is a money market fund.

Allowance for doubtful accounts

LINC has an allowance for doubtful accounts of \$5,000 as of June 30, 2017 and June 30, 2016, for grants and contributions receivable that may not be collectible. Such estimate is based on management’s experience, the aging of the receivables, subsequent receipts and the current economic conditions.

LITERACY, INC.**Notes to Financial Statements (continued)****June 30, 2017****Note 2 – Summary of significant accounting policies (continued)**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 requires 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.

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 programs and supporting services benefited.

In-kind goods and services

During the 2017 and 2016 fiscal years, LINC received staff time, legal services, professional services 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 \$123,465 in 2017 and \$90,101 in 2016, 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 and contributions, grants and accounts receivable. LINC places its cash and cash equivalents with what it believes to be quality financial institutions. LINC's contributions and grant 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 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.

LITERACY, INC.

Notes to Financial Statements (continued)

June 30, 2017

Note 2 – Summary of significant accounting policies (continued)

Subsequent events

LINC has evaluated events and transactions for potential recognition or disclosure through November 28, 2017, which is the date the financial statements were available to be issued.

Comparative financial information

The financial statements include certain prior-year summarized comparative financial information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with LINC's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Note 3 – Contributions and grants receivable

Contributions and grants receivable consist of the following as of June 30, 2017 and June 30, 2016 and are due as follows:

	<u>2017</u>	<u>2016</u>
Foundations and corporations	\$ 100,150	\$ 300,000
City of New York	126,968	279,342
State of New York	28,750	30,000
Event	45,421	28,505
Fees for services	40,784	3,569
Individuals	<u>210</u>	<u>1,660</u>
Total	<u>\$ 342,283</u>	<u>\$ 643,076</u>
Due within one year	\$ 342,283	\$ 543,076
Due within one to five years	<u>-</u>	<u>100,000</u>
Sub-total	342,283	643,076
Less: allowance for doubtful accounts	<u>5,000</u>	<u>5,000</u>
Total	<u>\$ 337,283</u>	<u>\$ 638,076</u>

LITERACY, INC.

Notes to Financial Statements (continued)

June 30, 2017

Note 4 – Property and equipment

A summary of property and equipment and related accumulated depreciation as of June 30, 2017 and June 30, 2016 is as follows:

	<u>2017</u>	<u>2016</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>16,408</u>	<u>12,283</u>
Net property and equipment	<u>\$ 7,973</u>	<u>\$ 12,098</u>

Note 5 – Temporarily restricted net assets

The following is a summary of the activity of the temporarily restricted net assets for the year ended June 30, 2017:

<u>Program/Purpose</u>	<u>Balance, June 30, 2016</u>	<u>Contributions and Grants</u>	<u>Net Assets Released from Restrictions</u>	<u>Balance, June 30, 2017</u>
Mimi Levin Lieber Award	\$ 7,496	\$ -	\$ -	\$ 7,496
Literacy support/timing	<u>1,150,950</u>	<u>843,100</u>	<u>(1,025,950)</u>	<u>968,100</u>
Total	<u>\$ 1,158,446</u>	<u>\$ 843,100</u>	<u>\$ (1,025,950)</u>	<u>\$ 975,596</u>

Note 6 – 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 temporarily restricted net assets, and the interest earned on such funds is unrestricted.

Note 7 – 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%, which as of June 30, 2017 the interest rate was 6.25%. The line of credit is secured by certain of LINC's personal property, as outlined in the agreement. As of June 30, 2017, there were no outstanding borrowings.

LITERACY, INC.**Notes to Financial Statements (continued)****June 30, 2017****Note 8 – Office lease agreements**

Effective August 30, 2012, LINC entered into an agreement to lease office space which ended August 31, 2015. The lease required monthly payments of \$2,300 and a security deposit of \$4,600. Effective September 1, 2015, LINC renewed this lease, which requires monthly payments of \$2,514 until the lease expires August 31, 2019. Effective October 15, 2013, LINC agreed to lease additional office space until October 31, 2015. This lease required monthly payments of \$1,800 and an additional security deposit of \$3,600. Effective September 15, 2015, LINC entered into a new lease for additional office space, which requires monthly payments of \$2,800 and expires August 31, 2019. In addition to the monthly rent payments, LINC is also charged for electricity, storage and use of a conference room and was required to make an additional security deposit of \$2,000. During the 2017 fiscal year, LINC entered into a lease for additional office space on a month-to-month basis requiring monthly rent payments of \$1,000. Occupancy expense for the years ended June 30, 2017 and June 30, 2016 was \$76,907 and \$70,446, respectively.

Note 9 – 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, 2017 and June 30, 2016 was \$26,998 and \$22,800, respectively.

Note 10 – 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.