

LITERACY, INC.

**Financial Statements
for year ended
June 30, 2021**

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, 2021 and June 30, 2020 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, 2021 and June 30, 2020 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.

Condon O'Meara McGinty & Donnelly LLP

November 30, 2021

LITERACY, INC.

Statement of Financial Position

Assets

| | June 30 | |
|--|---------------------------|---------------------------|
| | 2021 | 2020 |
| Current assets | | |
| Cash and cash equivalents | \$3,072,811 | \$2,823,926 |
| Investment in U.S. Treasury Bills, at fair value | 599,893 | 249,922 |
| Contributions and grants receivable, net | 853,474 | 788,100 |
| Accounts receivable, net | 24,908 | 142,741 |
| Prepaid expenses | <u>28,546</u> | <u>26,251</u> |
| Total current assets | 4,579,632 | 4,030,940 |
| Contributions and grants receivable, net of current portion | - | 225,000 |
| Property and equipment, at cost, net | 1,072 | 1,787 |
| Security deposit | <u>14,626</u> | <u>15,670</u> |
| Total assets | <u>\$4,595,330</u> | <u>\$4,273,397</u> |

Liabilities and Net Assets

| | | |
|---|---------------------------|---------------------------|
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 211,625 | \$ 144,453 |
| Agency funds | <u>73,216</u> | <u>176,847</u> |
| Total current liabilities | 284,841 | 321,300 |
| PPP loans payable | <u>500,000</u> | <u>491,107</u> |
| Total liabilities | <u>784,841</u> | <u>812,407</u> |
| Net assets | | |
| Without donor restrictions | 2,357,778 | 1,893,694 |
| With donor restrictions | <u>1,452,711</u> | <u>1,567,296</u> |
| Total net assets | <u>3,810,489</u> | <u>3,460,990</u> |
| Total liabilities and net assets | <u>\$4,595,330</u> | <u>\$4,273,397</u> |

See notes to financial statements.

Statement of Activities

See notes to financial statements.

LITERACY, INC.

Statement of Functional Expenses
Year Ended June 30, 2021
(with Summarized Comparative Financial Information
for the Year Ended June 30, 2020)

| | <u>2021</u> | | | <u>2020</u> | |
|--|------------------------------|-------------------|-------------------|--------------------|---------------------|
| | <u>Supporting Activities</u> | | | | |
| | <u>Management</u> | | | | |
| | <u>Program</u> | <u>and</u> | <u>Fund-</u> | <u>Total</u> | <u>Total</u> |
| | <u>Services</u> | <u>General</u> | <u>Raising</u> | | |
| Salaries | \$ 1,830,297 | \$ 186,975 | \$ 288,693 | \$2,305,965 | \$ 2,369,679 |
| Payroll taxes and benefits | 297,683 | 30,410 | 46,954 | 375,047 | 352,778 |
| Consultants | 35,892 | 15,577 | 46,145 | 97,614 | 60,646 |
| Professional fees | 211,422 | 33,222 | 5,111 | 249,755 | 200,051 |
| Program expenses | 239,400 | - | - | 239,400 | 196,306 |
| Office supplies | 1,962 | 200 | 309 | 2,471 | 17,778 |
| Staff development & training | 10,362 | 1,059 | 1,634 | 13,055 | 3,215 |
| Occupancy | 57,895 | 7,082 | 8,335 | 73,312 | 102,415 |
| Telephone and internet | 6,580 | 672 | 1,038 | 8,290 | 6,355 |
| Printing and publications | 19,223 | 1,964 | 3,032 | 24,219 | 16,191 |
| Depreciation | 568 | 57 | 90 | 715 | 1,025 |
| Insurance | 10,126 | 1,034 | 1,597 | 12,757 | 10,748 |
| Payroll service | - | 2,864 | - | 2,864 | 3,492 |
| Miscellaneous | 34,112 | 1,930 | 17,852 | 53,894 | 75,077 |
| Special events | - | - | 47,728 | 47,728 | 53,310 |
| Sub-total of expenses by function without in-kind contributions | 2,755,522 | 283,046 | 468,518 | 3,507,086 | 3,469,066 |
| Less: direct costs of special events net with revenue on the statement of activities | - | - | 47,728 | 47,728 | 53,310 |
| Sub-total without in-kind contributions | 2,755,522 | 283,046 | 420,790 | 3,459,358 | 3,415,756 |
| In-kind contributions | | | | | |
| Contributed legal services | - | 13,422 | - | 13,422 | 15,098 |
| Contributed professional services | 6,658 | - | 1,657 | 8,315 | 15,063 |
| Contributed program event support | - | - | - | - | 45,994 |
| Contributed office space | 23,938 | 1,424 | 2,198 | 27,560 | - |
| Contributed books and materials | 55,297 | - | - | 55,297 | 86,899 |
| Sub-total in-kind contributions | 85,893 | 14,846 | 3,855 | 104,594 | 163,054 |
| Total | \$ 2,841,415 | \$ 297,892 | \$ 424,645 | \$3,563,952 | \$ 3,578,810 |

See notes to financial statements.

LITERACY, INC.

Statement of Functional Expenses
Year Ended June 30, 2020

| | | <u>Supporting Activities</u> | | |
|---|---------------------|------------------------------|-------------------|---------------------|
| | <u>Program</u> | <u>Management</u> | <u>Fund-</u> | <u>Total</u> |
| | <u>Services</u> | <u>and</u> | <u>Raising</u> | |
| | | <u>General</u> | | |
| Salaries | \$ 1,896,098 | \$ 123,561 | \$ 350,020 | \$ 2,369,679 |
| Payroll taxes and benefits | 282,275 | 18,395 | 52,108 | 352,778 |
| Consultants | 11,568 | 2,778 | 46,300 | 60,646 |
| Professional fees | 189,476 | 2,759 | 7,816 | 200,051 |
| Program expenses | 189,259 | 112 | 6,935 | 196,306 |
| Office supplies | 14,225 | 927 | 2,626 | 17,778 |
| Staff development & training | 2,572 | 168 | 475 | 3,215 |
| Occupancy | 81,947 | 5,340 | 15,128 | 102,415 |
| Telephone and internet | 5,085 | 331 | 939 | 6,355 |
| Printing and publications | 12,955 | 844 | 2,392 | 16,191 |
| Depreciation | 820 | 54 | 151 | 1,025 |
| Insurance | 8,600 | 560 | 1,588 | 10,748 |
| Payroll service | 2,794 | 182 | 516 | 3,492 |
| Miscellaneous | 37,853 | 1,444 | 35,780 | 75,077 |
| Special events | - | - | 53,310 | 53,310 |
| Sub-total of expenses by function without in-kind contributions | 2,735,527 | 157,455 | 576,084 | 3,469,066 |
| Less: direct costs of special events net with revenue on the statement of activities | - | - | 53,310 | 53,310 |
| Sub-total without in-kind contributions | 2,735,527 | 157,455 | 522,774 | 3,415,756 |
| In-kind contributions | | | | |
| Contributed legal services | 12,081 | 787 | 2,230 | 15,098 |
| Contributed professional services | 12,053 | 785 | 2,225 | 15,063 |
| Contributed program event support | 45,994 | - | - | 45,994 |
| Contributed books and materials | 86,899 | - | - | 86,899 |
| Sub-total in-kind contributions | 157,027 | 1,572 | 4,455 | 163,054 |
| Total | \$ 2,892,554 | \$ 159,027 | \$ 527,229 | \$ 3,578,810 |

See notes to financial statements.

LITERACY, INC.

Statement of Cash Flows

| | Year Ended June 30 | |
|---|---------------------------|---------------------------|
| | 2021 | 2020 |
| Cash flows from operating activities | | |
| Increase in net assets | \$ 349,499 | \$ 543,909 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities | | |
| Depreciation | 715 | 1,025 |
| Forgiveness of PPP loan payable | (491,107) | - |
| Donated stock received | (59,742) | (91,699) |
| Sale of donated stock | 59,742 | 91,699 |
| (Increase) decrease in assets | | |
| Contributions and grants receivable, net | 159,626 | 250,899 |
| Accounts receivable, net | 117,833 | (96,821) |
| Prepaid expenses | (2,295) | 18,326 |
| Security deposit | 1,044 | (1,820) |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | 67,172 | (15,454) |
| Agency funds | (103,631) | 95,347 |
| Net cash provided by operating activities | <u>98,856</u> | <u>795,411</u> |
| Cash flows from investing activities | | |
| Proceeds from sales and maturities of investments | 1,367,840 | 630,390 |
| Purchases of investments | <u>(1,717,811)</u> | <u>(880,312)</u> |
| Net cash (used in) investing activities | <u>(349,971)</u> | <u>(249,922)</u> |
| Cash flows provided by financing activities | | |
| Proceeds from PPP loans payable | <u>500,000</u> | <u>491,107</u> |
| Net increase in cash and cash equivalents | 248,885 | 1,036,596 |
| Cash and cash equivalents, beginning of year | <u>2,823,926</u> | <u>1,787,330</u> |
| Cash and cash equivalents, end of year | <u>\$3,072,811</u> | <u>\$2,823,926</u> |

See notes to financial statements.

LITERACY, INC.

Notes to Financial Statements June 30, 2021

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.

Contributions

LINC records contributions as revenue without donor restrictions 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 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.

LITERACY, INC.**Notes to Financial Statements (continued)**
June 30, 2021**Note 2 – Summary of significant accounting policies (continued)**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, respectively, as of June 30, 2021 and June 30, 2020, 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.

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.

LITERACY, INC.**Notes to Financial Statements (continued)**
June 30, 2021**Note 2 – Summary of significant accounting policies (continued)****In-kind contributions**

During the 2021 and 2020 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 \$104,594 in 2021 and \$163,054 in 2020, 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, a national emergency was declared 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 30, 2021, which is the date the financial statements were available to be issued.

LITERACY, INC.

Notes to Financial Statements (continued)
June 30, 2021**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, 2021 and June 30, 2020 that are available for general use within one year of the statement of financial position date:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 3,072,811 | \$ 2,823,926 |
| Investment in U.S. Treasury Bills, at fair value | 599,893 | 249,922 |
| Contributions and grants receivable expected to be collected in one year, net | 853,474 | 788,100 |
| Accounts receivable, net | <u>24,908</u> | <u>142,741</u> |
| Total | <u>\$ 4,551,086</u> | <u>\$ 4,004,689</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, 2021 and June 30, 2020 and are due as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|-------------------|--------------------|
| Foundations and corporations | \$ 311,523 | \$ 736,050 |
| City of New York | 434,176 | 186,700 |
| State of New York | 65,500 | 65,500 |
| Event | 40,600 | 29,850 |
| Fees for services | 20,000 | 89,000 |
| Individuals and other receivables | <u>11,583</u> | <u>53,741</u> |
| Sub-total | <u>883,382</u> | <u>1,160,841</u> |
| Due within one year | 883,382 | 935,841 |
| Due within two years | <u>-</u> | <u>225,000</u> |
| Sub-total | <u>883,382</u> | <u>1,160,841</u> |
| Less: allowance for doubtful accounts | <u>5,000</u> | <u>5,000</u> |
| Total | <u>\$ 878,382</u> | <u>\$1,155,841</u> |

LITERACY, INC.

Notes to Financial Statements (continued)
June 30, 2021**Note 5 – Property and equipment, at cost, net**

A summary of property and equipment and related accumulated depreciation as of June 30, 2021 and June 30, 2020 is as follows:

| | <u>2021</u> | <u>2020</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>23,309</u> | <u>22,594</u> |
| Net property and equipment | <u>\$ 1,072</u> | <u>\$ 1,787</u> |

Note 6 – Paycheck Protection Program loans payable2020 Paycheck protection program loan

During the 2020 fiscal year, LINC applied for and received \$491,107 under the Paycheck Protection Program (“PPP”) which is a business loan program established under the Coronavirus Aid, Relief, and Economic Security Act. LINC had elected to record the proceeds as a liability until the loan was, in part or wholly, forgiven and LINC was legally released. LINC has spent all of the proceeds in accordance with the terms of the PPP loan program and this loan was forgiven in its entirety during May 2021.

2021 Paycheck protection program loan

During the 2021 fiscal year, LINC applied for and received a second draw loan under the PPP totaling \$500,000 at substantially the same terms as the first draw under the PPP. LINC has elected to record the proceeds as a liability until the loan is, in part or wholly, forgiven and LINC is legally released. 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 2022 fiscal year. Any amounts not forgiven are subject to interest at a fixed rate of 1% for a five year-term.

LITERACY, INC.

Notes to Financial Statements (continued)
June 30, 2021

Note 7 – Net assets with temporary donor restrictions

The following is a summary of the activity of the net assets with temporary donor restrictions for the years ended June 30, 2021 and June 30, 2020:

| <u>Temporary Program/Purpose</u> | <u>Balance, June 30, 2020</u> | <u>Contributions and Grants</u> | <u>Net Assets Released from Restrictions</u> | <u>Balance, June 30, 2021</u> |
|--------------------------------------|-----------------------------------|---|--|-----------------------------------|
| Mimi Levin Lieber Award | \$ 6,746 | \$ - | \$ - | \$ 6,746 |
| Literacy support/timing | <u>1,560,550</u> | <u>1,091,000</u> | <u>(1,205,585)</u> | <u>1,445,965</u> |
| Total | <u>\$ 1,567,296</u> | <u>\$1,091,000</u> | <u>\$(1,205,585)</u> | <u>\$ 1,452,711</u> |

| <u>Temporary Program/Purpose</u> | <u>Balance, June 30, 2019</u> | <u>Contributions and Grants</u> | <u>Net Assets Released from Restrictions</u> | <u>Balance, 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> |

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, 2021 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, 2021, there were no outstanding borrowings.

LITERACY, INC.

Notes to Financial Statements (continued)
June 30, 2021

Note 10 – Office lease agreements

LINC leases office space under two lease agreements. In addition to the monthly rent payments totaling \$6,010, 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 \$14,626. Occupancy expense for the years ended June 30, 2021 and June 30, 2020 was \$100,872 and \$102,415, respectively. The leases expire at various dates through September 30, 2023.

The following is a summary of the future rent payments due as of June 30, 2021:

| <u>Fiscal year</u> | <u>Amount</u> |
|--------------------|-------------------|
| 2022 | \$ 72,120 |
| 2023 | 72,120 |
| 2024 | <u>18,030</u> |
| Total | <u>\$ 162,270</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, 2021 and June 30, 2020 was \$40,431 and \$38,626, respectively.

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.