

Literacy Trust, Inc.

Financial Statements

June 30, 2019 and 2018

Independent Auditors' Report

Board of Directors

Literacy Trust, Inc.

We have audited the accompanying financial statements of Literacy Trust, Inc. (the "Trust"), which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Auditors' 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 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 auditors' 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 Trust, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019 Literacy Trust, Inc. adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

March 6, 2020

Literacy Trust, Inc.

Statements of Financial Position

	June 30	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 704,947	\$ 855,680
Accounts receivable	361,106	242,083
Contributions receivable, net	-	30,000
Prepaid expenses	18,160	40,644
Security deposits	<u>72,280</u>	<u>14,700</u>
	<u>\$ 1,156,493</u>	<u>\$ 1,183,107</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 41,022	\$ 71,573
Deferred revenue	<u>-</u>	<u>60,000</u>
Total Liabilities	41,022	131,573
Net assets without donor restrictions	<u>1,115,471</u>	<u>1,051,534</u>
	<u>\$ 1,156,493</u>	<u>\$ 1,183,107</u>

See notes to financial statements

Literacy Trust, Inc.

Statements of Activities

	Year Ended	
	June 30	
	<u>2019</u>	<u>2018</u>
REVENUE AND PUBLIC SUPPORT		
Program service revenue	\$ 1,219,856	\$ 1,298,866
Contributions	<u>858,800</u>	<u>418,845</u>
Total Revenue and Public Support	<u>2,078,656</u>	<u>1,717,711</u>
EXPENSES		
Program	1,427,751	1,307,880
Management and general	380,504	372,860
Fundraising	<u>206,464</u>	<u>147,160</u>
Total Expenses	<u>2,014,719</u>	<u>1,827,900</u>
Change in Net Assets	63,937	(110,189)
NET ASSETS		
Beginning of year	<u>1,051,534</u>	<u>1,161,723</u>
End of year	<u>\$ 1,115,471</u>	<u>\$ 1,051,534</u>

See notes to financial statements

Literacy Trust, Inc.

Statement of Functional Expenses
Year Ended June 30, 2019

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 714,409	\$ 159,257	\$ 127,289	\$ 1,000,955
Fringe benefits	157,444	40,511	28,676	226,631
Contract service	6,981	28,386	27,868	63,235
Professional fees	-	41,386	-	41,386
Office expenses	70,282	75,294	16,579	162,155
Program expenses	355,044	2,010	3,836	360,890
Transportation	16,821	6,255	1,498	24,574
Occupancy	106,671	10,651	-	117,322
Conference	-	1,000	101	1,101
Other expenses	99	15,754	617	16,470
Total Expenses	<u>\$ 1,427,751</u>	<u>\$ 380,504</u>	<u>\$ 206,464</u>	<u>\$ 2,014,719</u>

See notes to financial statements

Literacy Trust, Inc.

Statement of Functional Expenses
Year Ended June 30, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 702,431	\$ 147,812	\$ 99,134	\$ 949,377
Fringe benefits	195,826	40,819	24,205	260,850
Contract service	383	104,396	21,431	126,210
Professional fees	-	43,987	-	43,987
Office expenses	39,097	7,074	1,972	48,143
Program expenses	249,392	6,643	-	256,035
Transportation	17,280	3,699	118	21,097
Occupancy	103,396	338	-	103,734
Conference	27	10,445	-	10,472
Other expenses	<u>48</u>	<u>7,647</u>	<u>300</u>	<u>7,995</u>
Total Expenses	<u>\$ 1,307,880</u>	<u>\$ 372,860</u>	<u>\$ 147,160</u>	<u>\$ 1,827,900</u>

See notes to financial statements

Literacy Trust, Inc.

Statements of Cash Flows

	Year Ended June 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 63,937	\$ (110,189)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net change in operating assets and liabilities		
Accounts receivable	(119,023)	508,295
Contributions receivable	30,000	358,916
Prepaid expenses	22,484	(40,133)
Accounts payable and accrued expenses	(30,551)	21,210
Deferred revenue	(60,000)	60,000
Net Cash from Operating Activities	(93,153)	798,099
CASH FLOWS FROM INVESTING ACTIVITIES		
Security deposits made	(57,580)	-
Change in Cash and Cash Equivalents	(150,733)	798,099
CASH AND CASH EQUIVALENTS		
Beginning of year	855,680	57,581
End of year	<u>\$ 704,947</u>	<u>\$ 855,680</u>

See notes to financial statements

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

1. Organization and Nature of Activities

Literacy Trust, Inc. (the "Trust"), a Florida not-for-profit corporation, is committed to helping children achieve literacy by disseminating high-quality, cost-effective programs for schools and families.

The Trust has been determined to be a non-profit organization exempt from federal and state income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Change in Accounting Principle

On July 1, 2018, the Trust adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Trust to collapse the three-category (unrestricted, temporarily restricted and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Trust to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

Cash and Cash Equivalents

The Trust considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Allowance for Doubtful Accounts

The Trust provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Trust's estimate is based on historical collection experience and a review of the current status of receivables. It is reasonably possible that the Trust's estimate of the allowance for doubtful accounts will change. At June 30, 2019 and 2018, management has concluded that an allowance is not required.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as with donor restrictions or without donor restrictions. All net assets of the Trust are without donor restrictions as of June 30, 2019 and 2018.

Revenue Recognition

Revenue is recognized as services are performed or expenditures are incurred under the Trust's contracts with its clients and funders. Advances received from grantors and funder agencies prior to the award period or to the Trust's expenditure of the specific program costs are reflected on the statements of financial position as deferred revenue. Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are reflected as contributions receivables and are recorded at their net realizable value. Unconditional promises to give that are due in subsequent years are discounted to the present value of their net realizable value, using discount rates applicable to the years in which the promises are received. The discount is amortized into contribution income over the discount period.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Salaries and wages and fringe benefits have been allocated to the program and supporting services functions based on time actual spent by each employee. Occupancy and office expenses are similarly allocated amongst such functions and based on actual time spent by programmatic or supporting employees within such functions.

Accounting for Uncertainty in Income Taxes

The Trust recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Trust had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Trust is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2016.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 6, 2020.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

3. Liquidity and Availability of Financial Assets

The Trust's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position were as follows at June 30, 2019:

Financial Assets:	
Cash and cash equivalents	\$ 704,947
Accounts receivable	<u>361,106</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 1,066,053</u>

As part of the Trust's liquidity management strategy, the Trust structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Trust's working capital and cash flows have cyclical variations during the year attributable to the cash receipts of government grants and contributions from donors. A majority of general expenditures over the next twelve months are financed through cash and cash equivalents and receivables.

4. Accounts Receivable

Accounts receivable as of June 30, 2019 and 2018 consists of revenue earned by the Trust in accordance with the terms of various contracts entered into. It is the estimate of management that all balances are expected to be collected within one year.

5. Contributions Receivable

The Trust did not have any contributions receivable as of June 30, 2019 and had \$30,000 contributions receivable as of June 30, 2018.

6. Concentration of Credit Risk

Financial instruments that potentially subject the Trust to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The Trust maintains its cash in bank deposit accounts which generally exceed federally insured limits. The Trust has not experienced any losses in such accounts. At June 30, 2019 and 2018, the Trust had accounts receivable of approximately \$301,000 and \$232,000 from two entities. This amount represented approximately 83% and 96% of total outstanding accounts receivable as of June 30, 2019 and 2018.

For years ended June 30, 2019 and 2018, the Trust received program service revenue of approximately 93% from three entities and 89% from two entities. For years ended June 30, 2019 and 2018, the Trust had contributions of approximately 98% and 93% from one funder, which shares common directors with the Trust.

The Trust receives its funding from a limited number of foundations and entities. The Trust is economically dependent on the continuation of such funding.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

7. Contracts

Subsequent to year end, the Trust was awarded approximately \$1,828,240 in contracts to provide funds on a cost-reimbursement basis for the Trust's programs. These funds will not be reflected in the financial statements until reimbursable activities have been conducted in accordance with the provisions of the contracts.

8. Retirement Plan

The Trust offers self-directed savings incentive match plans (simple IRAs) for all employees who have completed 90 days of service at the Trust. The Trust matches up to 3% of an employee's annual salary. Plan expense was \$24,680 for the year ended June 30, 2019 and \$30,746 for the year ended ended June 30, 2018.

9. Lease Commitment

In June 2019, the Trust signed a lease beginning July 1, 2019 which expires on December 31, 2026. The Trust's policy is to record base rent on a straight-line basis over the terms of the lease. Future minimum rental payments are:

2020	\$	191,595
2021		197,718
2022		203,650
2023		209,759
2024		216,052
Thereafter		<u>687,829</u>
		<u>\$ 1,706,603</u>

Rent expense totaled \$117,322 and \$103,734 for 2019 and 2018.

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