

Literacy Trust, Inc.

Financial Statements

June 30, 2021 and 2020

Independent Auditors' Report

Board of Directors Literacy Trust, Inc.

We have audited the accompanying financial statements of Literacy Trust, Inc. (the "LT"), which comprise the statements of financial position as of June 30, 2021 and 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.

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, 2021 and 2020, 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.

PKF O'Connor Davies, LLP

May 6, 2022

Literacy Trust, Inc.

Statements of Financial Position

	June 30	
	2021	2020
ASSETS		
Cash	\$ 958,687	\$ 566,654
Contributions receivable	1,550,600	-
Accounts receivable, net of allowance for doubtful accounts of \$24,000 and \$49,939	345,434	614,906
Prepaid expenses	40,637	27,240
Security deposits	57,580	72,280
Property, equipment and software, net	551,824	141,619
	<u>\$ 3,504,762</u>	<u>\$ 1,422,699</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 68,795	\$ 13,857
Deferred revenue	8,000	-
PPP loan payable	328,707	292,549
Deferred rent	57,110	55,309
Total Liabilities	<u>462,612</u>	<u>361,715</u>
Net Assets		
Without donor restrictions	1,485,203	1,060,984
With donor restrictions	1,556,947	-
Total Net Assets	<u>3,042,150</u>	<u>1,060,984</u>
	<u>\$ 3,504,762</u>	<u>\$ 1,422,699</u>

See notes to financial statements

Literacy Trust, Inc.

Statements of Activities

	Year Ended June 30			
	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND PUBLIC SUPPORT				
Program service revenue	\$ 566,852	\$ -	\$ 566,852	\$ 1,171,430
Contributions	2,056,680	1,683,035	3,739,715	1,274,192
Donated services	185,985	-	185,985	7,714
Other income	2,657	-	2,657	87
Net assets released from restrictions	<u>126,088</u>	<u>(126,088)</u>	<u>-</u>	<u>-</u>
Total Revenue and Public Support	<u>2,938,262</u>	<u>1,556,947</u>	<u>4,495,209</u>	<u>2,453,423</u>
EXPENSES				
Program	2,012,035	-	2,012,035	1,677,185
Management and general	467,754	-	467,754	679,888
Fundraising	<u>326,803</u>	<u>-</u>	<u>326,803</u>	<u>150,837</u>
Total Expenses	<u>2,806,592</u>	<u>-</u>	<u>2,806,592</u>	<u>2,507,910</u>
Surplus (Deficit) from Operations	131,670	1,556,947	1,688,617	(54,487)
NON-OPERATING ACTIVITIES				
Forgiveness of Paycheck Protection Program Loan	<u>292,549</u>	<u>-</u>	<u>292,549</u>	<u>-</u>
Change in Net Assets	424,219	1,556,947	1,981,166	(54,487)
NET ASSETS				
Beginning of year	<u>1,060,984</u>	<u>-</u>	<u>1,060,984</u>	<u>1,115,471</u>
End of year	<u>\$ 1,485,203</u>	<u>\$ 1,556,947</u>	<u>\$ 3,042,150</u>	<u>\$ 1,060,984</u>

See notes to financial statements

Literacy Trust, Inc.

Statement of Functional Expenses
Year Ended June 30, 2021

	Program			Total Program	Management and General	Fundraising	Total Expenses
	Service Delivery	Program Development	Program Research and Analysis				
Personnel	\$ 1,289,956	\$ -	\$ 18,163	\$ 1,308,119	\$ 303,672	\$ 286,467	\$ 1,898,258
Program materials	333,550	-	-	333,550	-	-	333,550
Professional fees	29,052	61,854	-	90,906	64,079	17,145	172,130
Occupancy	88,360	-	-	88,360	21,374	13,646	123,380
Office expenses	42,980	3,663	-	46,643	48,864	9,206	104,713
Transportation	436	-	-	436	17	-	453
Conference	269	-	-	269	-	75	344
Bad debt	74,500	-	-	74,500	-	-	74,500
Depreciation and amortization	22	60,998	-	61,020	3,328	-	64,348
Other expenses	8,232	-	-	8,232	26,420	264	34,916
Total Expenses	<u>\$ 1,867,357</u>	<u>\$ 126,515</u>	<u>\$ 18,163</u>	<u>\$ 2,012,035</u>	<u>\$ 467,754</u>	<u>\$ 326,803</u>	<u>\$ 2,806,592</u>

See notes to financial statements

Literacy Trust, Inc.

Statement of Functional Expenses
Year Ended June 30, 2020

	Program			Management and General	Fundraising	Total Expenses
	Service Delivery	Program Development	Program Research and Analysis			
Personnel	\$ 1,231,763	\$ -	\$ -	\$ 309,470	\$ 76,361	\$ 1,617,594
Program materials	307,553	-	-	-	3,184	310,737
Professional fees	405	-	-	108,474	60,050	168,929
Occupancy	36,119	-	-	163,728	-	199,847
Office expenses	23,833	-	-	58,940	5,874	88,647
Transportation	16,140	-	-	3,247	1,226	20,613
Conference	-	-	-	1,068	75	1,143
Bad debt	54,906	-	-	-	-	54,906
Depreciation and amortization	-	-	-	1,937	-	1,937
Other expenses	6,466	-	-	33,024	4,067	43,557
Total Expenses	\$ 1,677,185	\$ -	\$ -	\$ 679,888	\$ 150,837	\$ 2,507,910

See notes to financial statements

Literacy Trust, Inc.

Statements of Cash Flows

	Year Ended	
	June 30	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,981,166	\$ (54,487)
Adjustments to reconcile change in net assets to net cash from operating activities		
Forgiveness of Paycheck Protection Program Loan	(292,549)	-
In-kind contributions of property, equipment and software	(185,985)	(7,714)
Depreciation and amortization	64,348	1,937
Deferred rent	1,801	55,309
Bad debt expense	74,500	54,906
Net change in operating assets and liabilities		
Accounts receivable	194,972	(308,706)
Contributions receivable	(1,550,600)	-
Prepaid expenses	(13,397)	(9,080)
Accounts payable and accrued expenses	54,938	(27,165)
Deferred revenue	8,000	-
Net Cash from Operating Activities	337,194	(295,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Security deposits returned	14,700	-
Purchase of property, equipment and software	(288,568)	(135,842)
Net Cash from Investing Activities	(273,868)	(135,842)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	328,707	292,549
Change in Cash and Cash Equivalents	392,033	(138,293)
CASH		
Beginning of year	566,654	704,947
End of year	\$ 958,687	\$ 566,654

See notes to financial statements

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

1. Organization and Nature of Activities

Literacy Trust, Inc. ("LT"), is a not-for-profit organization incorporated in October 1998. The mission of LT is to leverage what already exists in school communities – talented, passionate adults – to build capacity and create fluent, motivated, self-confident readers. LT provides professional development and program support using proven program models, engaging teachers and school support staff (paraprofessionals and school aides) in intervention, while also directly creating more literacy intervention opportunities for students

LT 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.

Property, Equipment and Software

LT follows the practice of capitalizing all expenditures for property and equipment with a cost in excess of \$1,000 and a useful life of three years or more. Property and equipment are reflected at cost, or fair value at the time of the donation and depreciation is recognized on a straight-line basis over 3 to 10 years. Leasehold improvements are amortized over the lesser of estimated useful life or lease inclusive of expected lease renewals.

When property and equipment is sold, retired or disposed of, the cost and related accumulated depreciation is removed from the accounts and any gain or loss is reported in the statements of activities.

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount of the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended June 30, 2021 and 2020.

Allowance for Doubtful Accounts

LT provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. LT's estimate is based on historical collection experience and a review of the current status of receivables. It is reasonably possible that LT's estimate of the allowance for doubtful accounts will change. Receivables are written off against the allowance for doubtful accounts when all reasonable collections efforts have been made.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (*continued*)

Net Asset Presentation

Net assets and revenue are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as with or without donor restriction. Contributions are reported as an increase in without donor restricted net assets unless their use is limited by donor-imposed restrictions. All donor restricted support is reported as an increase in with donor restricted net assets. When a restriction expires, with donor restricted net assets are reclassified to without donor restriction and reported in the statements of activities as net assets released from restriction.

Deferred Rent

LT records its rent in accordance with U.S. GAAP guidance whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statements of financial position.

Revenue Recognition

Revenue is recognized as services are performed or expenditures are incurred under LT's contracts with its clients and funders. Advances received from grantors and funder agencies prior to the award period or to LT'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 receivable 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. Personnel costs 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.

Operating Indicator

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Non-operating activities include gain on forgiveness of paycheck protection program loan.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (*continued*)

Donated Services

LT recognizes the fair value of donated services which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Volunteer services that do not require specialized skills or would not typically be purchased had they not been provided by the donation have not been recognized as such services do not meet the criteria for recognition in the financial statements.

Accounting for Uncertainty in Income Taxes

LT recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that LT had no uncertain tax positions that would require financial statement recognition and/or disclosure. LT is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2018.

Reclassifications

Certain 2020 amounts have been reclassified to conform to the current year presentation.

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 May 6, 2022.

3. Liquidity and Availability of Financial Assets

LT'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:

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

3. Liquidity and Availability of Financial Assets *(continued)*

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 958,687	\$ 566,654
Accounts receivable, net	345,434	614,906
Contributions receivable	<u>1,550,600</u>	<u>-</u>
Total Financial Assets	2,854,721	1,181,560
Less contractual or donor imposed restrictions amounts:		
Restricted by donor with time or purpose restrictions	<u>1,556,947</u>	<u>-</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 1,297,774</u>	<u>\$ 1,181,560</u>

As part of LT's liquidity management strategy, LT structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. LT'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 receivables.

4. Accounts Receivable

Accounts receivable as of June 30, 2021 and 2020 consists of revenue earned by LT 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

LT had contributions receivable of \$1,550,600 and \$-0- as of June 30, 2021 and 2020. It is the estimate of management that all balances are expected to be collected within one year.

Literacy Trust, Inc.

Notes to Financial Statements June 30, 2021 and 2020

6. Concentration of Credit Risk

Financial instruments that potentially subject LT to concentrations of credit risk consist primarily of cash and receivables. LT maintains its cash in bank deposit accounts which generally exceed federally insured limits. LT has not experienced any losses in such accounts. As of June 30, 2021 and 2020, approximately \$658,634 and \$263,522 of cash was maintained with institutions in excess of FDIC limits. At June 30, 2021 and 2020, LT had accounts receivable of approximately \$330,000 and \$479,000 from three and two entities, respectively. This amount represented approximately 89% and 72% of total outstanding accounts receivable as of June 30, 2021 and 2020. At June 30, 2021 LT had a contribution receivable of \$1,505,600 from one entity, representing 97% of total outstanding contributions receivable.

For the years ended June 30, 2021 and 2020, LT received program service revenue of approximately 91% and 95% from one and three entities, respectively. For the years ended June 30, 2021 and 2020, LT had contributions of approximately 94% and 97% from one entity, which shares common directors with LT.

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

7. Net Assets with Donor Restrictions

Changes in net assets balances by restriction in the fiscal year 2021 were as follows:

	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Release from Restrictions</u>	<u>Balance at June 30, 2021</u>
Reading rescue	\$ -	\$ 1,628,035	\$ (71,088)	\$ 1,556,947
Program development	<u>-</u>	<u>55,000</u>	<u>(55,000)</u>	<u>-</u>
Total Net Assets With Donor Restrictions	<u>\$ -</u>	<u>\$ 1,683,035</u>	<u>\$ (126,088)</u>	<u>\$ 1,556,947</u>

There were no net assets with donor restrictions in the fiscal year 2020.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

8. Property, Equipment and Software

Property and equipment is reported at cost less accumulated depreciation and amortization as follows:

	<u>2021</u>	<u>2020</u>
Furniture, fixtures and equipment	\$ 18,725	\$ 8,886
Leasehold improvements	10,913	10,913
Software	219,593	-
Construction in progress - Software	<u>368,878</u>	<u>123,757</u>
	618,109	143,556
Less: accumulated depreciation and amortization	<u>(66,285)</u>	<u>(1,937)</u>
	<u>\$ 551,824</u>	<u>\$ 141,619</u>

Construction in progress consists of costs associated with LTs development of web based software platform.

9. PPP Loan Payable

On April 14, 2020, LT received loan proceeds in the amount of \$292,549 under the Paycheck Protection Program (“PPP Loan”) at a fixed interest rate of 1%. The PPP Loan, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES ACT”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The PPP Loan was forgiven in full by the SBA on March 15, 2021. The PPP loan forgiveness is recognized as CARES Act revenue on the 2021 statement of activities.

On March 12, 2021, LT received a second draw on the PPP in the amount of \$328,707 at a fixed interest rate of 1% and is recorded as a PPP loan payable on the 2021 statement of financial position. Subsequent to year end, the second draw PPP loan was forgiven in full by the SBA on December 13, 2021.

10. Donated Services

LT received pro-bono website design services with a fair value of \$185,985 and \$7,714 in 2021 and 2020. Such services have been reflected as both donated services revenue in the statement of activities and capitalized as construction in progress – software.

Literacy Trust, Inc.

Notes to Financial Statements June 30, 2021 and 2020

11. Contracts

Subsequent to year end, LT was awarded \$699,522 in contracts to provide funds on a cost-reimbursement basis for LT'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.

12. Retirement Plan

LT sponsors a 401(k) plan through Slavic401k. Full time employees are eligible to participate immediately and are eligible for a 100% match of the amount deferred by the employee up to a maximum of 3% compensation. Plan expense was \$31,476 for the year ended June 30, 2021 and \$25,107 for the year ended June 30, 2020.

13. Lease Commitment

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

2022	\$ 122,190
2023	125,855
2024	129,631
2025	133,520
2026	137,526
Thereafter	<u>70,827</u>
	<u>\$ 719,548</u>

Rent expense totaled \$123,380 and \$120,404 for 2021 and 2020.

14. COVID-19

In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease ("COVID-19") as a pandemic. Management will continue to monitor the situation closely and it is possible that LT will need to implement further measures. In light of the uncertainty as to the severity and duration of the pandemic, the impact on LT's revenue, profitability, and financial position is uncertain at this time.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

15. Management's Discussion of Current Economic Environment and Plans to Improve Results of Operations

LT's partnership with their main funder and primary source of contributions and support is set to expire effective June 30, 2022. This has resulted in an unexpected funding reduction as well as an upcoming end to the Reading Rescue intellectual property ("IP") license, the curriculum LT uses when delivering its current service offering, literacy intervention program. As a result of this loss in funding, LT has begun executing a strategy to mitigate the impact this loss has on LT's overall financial health and sustainability.

This strategy includes but is not limited to expediting the timeline for replacing the existing curriculum with an open-source IP, Every Student Succeeds Act ("ESSA") approved curriculum. Additionally, LT has secured replacement funding to fill some of the gap created by the loss of its primary revenue stream and will implement cost-reduction measures to ensure that operating expenses are fully supported by funding available in FY2023. Most significantly, these cost-reduction measures will result in a decrease in LT personnel costs - through a mix of reductions in working hours, base salary reductions, and position eliminations. Finally, as a means to reduce its economic dependency on any one service offering or funding source, LT will develop a strategy to further diversify its program offerings, fundraising initiatives and, by extension, its revenue streams.

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