

Literacy Trust, Inc.

Financial Statements

June 30, 2022 and 2021

Independent Auditors' Report

Board of Directors
Literacy Trust, Inc.

Opinion

We have audited the accompanying financial statements of Literacy Trust, Inc. ("LT"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LT as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LT and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LT's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 LT's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LT's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

PKF O'Connor Davies, LLP

November 18, 2022

Literacy Trust, Inc.

Statements of Financial Position

	June 30	
	2022	2021
ASSETS		
Cash	\$ 840,677	\$ 958,687
Contributions receivable	-	1,550,600
Accounts receivable, net of allowance for doubtful accounts of \$8,000 and \$24,000	177,071	345,434
Prepaid expenses	31,347	40,637
Security deposits	57,580	57,580
Property, equipment and software, net	844,822	551,824
	<u>\$ 1,951,497</u>	<u>\$ 3,504,762</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 136,550	\$ 68,795
Deferred revenue	-	8,000
PPP loan payable	-	328,707
Deferred rent	55,363	57,110
Total Liabilities	<u>191,913</u>	<u>462,612</u>
Net Assets		
Without donor restrictions	1,502,084	1,485,203
With donor restrictions	257,500	1,556,947
Total Net Assets	<u>1,759,584</u>	<u>3,042,150</u>
	<u>\$ 1,951,497</u>	<u>\$ 3,504,762</u>

See notes to financial statements

Literacy Trust, Inc.

Statements of Activities

	Year Ended June 30					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND PUBLIC SUPPORT						
Program service revenue	\$ 802,238	\$ -	\$ 802,238	\$ 566,852	\$ -	\$ 566,852
Contributions	21,056	630,000	651,056	2,056,680	1,683,035	3,739,715
Donated services	222,550	-	222,550	185,985	-	185,985
Other income	2,479	-	2,479	2,657	-	2,657
Net assets released from restrictions	1,929,447	(1,929,447)	-	126,088	(126,088)	-
Total Revenue and Public Support	<u>2,977,770</u>	<u>(1,299,447)</u>	<u>1,678,323</u>	<u>2,938,262</u>	<u>1,556,947</u>	<u>4,495,209</u>
EXPENSES						
Program	2,299,356	-	2,299,356	2,012,035	-	2,012,035
Management and general	585,721	-	585,721	467,754	-	467,754
Fundraising	404,519	-	404,519	326,803	-	326,803
Total Expenses	<u>3,289,596</u>	<u>-</u>	<u>3,289,596</u>	<u>2,806,592</u>	<u>-</u>	<u>2,806,592</u>
(Deficit) Surplus from Operations	(311,826)	(1,299,447)	(1,611,273)	131,670	1,556,947	1,688,617
NON-OPERATING ACTIVITIES						
CARES Act Revenue	<u>328,707</u>	<u>-</u>	<u>328,707</u>	<u>292,549</u>	<u>-</u>	<u>292,549</u>
Change in Net Assets	16,881	(1,299,447)	(1,282,566)	424,219	1,556,947	1,981,166
NET ASSETS						
Beginning of year	<u>1,485,203</u>	<u>1,556,947</u>	<u>3,042,150</u>	<u>1,060,984</u>	<u>-</u>	<u>1,060,984</u>
End of year	<u>\$ 1,502,084</u>	<u>\$ 257,500</u>	<u>\$ 1,759,584</u>	<u>\$ 1,485,203</u>	<u>\$ 1,556,947</u>	<u>\$ 3,042,150</u>

See notes to financial statements

Literacy Trust, Inc.

Statement of Functional Expenses
Year Ended June 30, 2022

	Program			Total Program	Management and General	Fundraising	Total Expenses
	Literacy Intervention	Program Development	Program Research and Analysis				
Personnel	\$ 1,378,150	\$ 98,502	\$ 34,519	\$ 1,511,171	\$ 382,768	\$ 343,291	\$ 2,237,230
Program materials	292,580	17,660	-	310,240	-	-	310,240
Professional fees	4,221	81,677	1,550	87,448	119,978	20,206	227,632
Occupancy	101,858	-	943	102,801	20,751	16,249	139,801
Office expenses	29,143	34,445	3,048	66,636	38,980	14,631	120,247
Transportation	1,224	-	-	1,224	1,058	2,696	4,978
Conference	-	-	-	-	125	406	531
Depreciation and amortization	-	204,632	-	204,632	4,139	-	208,771
Other expenses	10,416	4,788	-	15,204	17,922	7,040	40,166
Total Expenses	\$ 1,817,592	\$ 441,704	\$ 40,060	\$ 2,299,356	\$ 585,721	\$ 404,519	\$ 3,289,596

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.

Statements of Cash Flows

	Year Ended June 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,282,566)	\$ 1,981,166
Adjustments to reconcile change in net assets to net cash from operating activities		
Forgiveness of Paycheck Protection Program loan	(328,707)	(292,549)
In-kind contributions of property, equipment and software	(191,568)	(185,985)
Depreciation and amortization	208,771	64,348
Deferred rent	(1,747)	1,801
Bad debt expense	-	74,500
Net change in operating assets and liabilities		
Accounts receivable	168,363	194,972
Contributions receivable	1,550,600	(1,550,600)
Prepaid expenses	9,290	(13,397)
Accounts payable and accrued expenses	67,755	54,938
Deferred revenue	(8,000)	8,000
Net Cash from Operating Activities	192,191	337,194
CASH FLOWS FROM INVESTING ACTIVITIES		
Security deposits returned	-	14,700
Purchase of property, equipment and software	(310,201)	(288,568)
Net Cash from Investing Activities	(310,201)	(273,868)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	-	328,707
Change in Cash and Cash Equivalents	(118,010)	392,033
CASH		
Beginning of year	958,687	566,654
End of year	\$ 840,677	\$ 958,687

See notes to financial statements

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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.

Adoption of New Accounting Policy

Effective July 1, 2021, LT adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Analysis of the various provisions of this standard resulted in no significant changes in the way LT recognized contributed nonfinancial assets, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

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 two 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, 2022 and 2021.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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

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 collection efforts have been made.

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.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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

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.

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, 2019.

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 November 18, 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:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 840,677	\$ 958,687
Accounts receivable, net	177,071	345,434
Contributions receivable	-	1,550,600
Total Financial Assets	<u>1,017,748</u>	<u>2,854,721</u>
Less contractual or donor imposed restrictions amounts:		
Restricted by donor with time or purpose restrictions	<u>257,500</u>	<u>1,556,947</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 760,248</u>	<u>\$ 1,297,774</u>

Literacy Trust, Inc.

Notes to Financial Statements June 30, 2022 and 2021

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

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, 2022 and 2021 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 \$-0- and \$1,550,600 as of June 30, 2022 and 2021. It is the estimate of management that all balances are expected to be collected within one year.

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, 2022 and 2021, \$540,611 and \$658,634 of cash was maintained with institutions in excess of FDIC limits. At June 30, 2022 and 2021, LT had accounts receivable of approximately \$87,000 and \$330,000 from three entities. This amount represented approximately 49% and 89% of total outstanding accounts receivable as of June 30, 2022 and 2021.

For the years ended June 30, 2022 and 2021, LT received program service revenue of approximately 66% and 91% from one and three entities. For the years ended June 30, 2022 and 2021, contributions of approximately 95% and 94% were received from two and one entity, which shared 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.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

7. Net Assets with Donor Restrictions

Changes in net assets balances by restriction in the fiscal year 2022 and 2021 were as follows:

	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Release from Restrictions</u>	<u>Balance at June 30, 2022</u>
Reading rescue	\$ 1,556,947	\$ -	\$ (1,556,947)	\$ -
Literacy Intervention	-	260,000	(187,500)	72,500
Program development	-	370,000	(185,000)	185,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Net Assets				
With Donor Restrictions	<u>\$ 1,556,947</u>	<u>\$ 630,000</u>	<u>\$ (1,929,447)</u>	<u>\$ 257,500</u>

	<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	-	55,000	(55,000)	-
	<u> </u>	<u> </u>	<u> </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>

8. Property, Equipment and Software

Property and equipment are reported at cost less accumulated depreciation and amortization in the fiscal years 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Furniture, fixtures and equipment	\$ 20,901	\$ 18,725
Leasehold improvements	10,913	10,913
Software	1,021,942	219,593
Construction in progress - Software	66,122	368,878
	<u>1,119,878</u>	<u>618,109</u>
Less: accumulated depreciation and amortization	<u>(275,056)</u>	<u>(66,285)</u>
	<u>\$ 844,822</u>	<u>\$ 551,824</u>

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

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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%. The PPP Loan was forgiven in full by the SBA on December 13, 2021. The PPP loan forgiveness is recognized as CARES Act revenue on the 2022 statement of activities.

10. Donated Services

LT received pro-bono website design services with a fair value of \$191,568 and \$185,985 in 2022 and 2021. Such services have been reflected as both donated services revenue in the statement of activities and capitalized as construction in progress – software.

During 2022 LT received pro bono website design services with a fair value of \$30,982. Such services have been reflected as both donated services revenue in the statement of activities and professional fees in the statement of functional expenses.

The contributed services are valued at the estimated fair value based on current rates for similar website design services. There were no donor restrictions on such amounts.

11. Contracts

Subsequent to year end, LT was awarded \$1,135,740 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 \$42,782 for the year ended June 30, 2022 and \$31,476 for the year ended June 30, 2021.

Literacy Trust, Inc.

Notes to Financial Statements June 30, 2022 and 2021

13. Lease Commitment

In June 2019, LT signed a lease beginning July 1, that was originally set to expire on December 31, 2026. LT terminated the lease effective June 30, 2022, and has been working with a remote administrative workforce since.

Rent expense totaled \$139,801 and \$123,380 for 2022 and 2021.

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.

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 expired effective June 30, 2022. This has resulted in an unexpected funding reduction as well as the 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 fiscal 2024. 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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