

Literacy Trust, Inc.

Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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

February 12, 2021

Literacy Trust, Inc.

Statements of Financial Position

	June 30	
	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 566,654	\$ 704,947
Accounts receivable, net of allowance for doubtful accounts of \$49,939 and \$0	614,906	361,106
Prepaid expenses	27,240	18,160
Security deposits	72,280	72,280
Property, equipment and software, net	<u>141,619</u>	<u>-</u>
	<u>\$ 1,422,699</u>	<u>\$ 1,156,493</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 13,857	\$ 41,022
PPP loan payable	292,549	-
Deferred rent	<u>55,309</u>	<u>-</u>
Total Liabilities	361,715	41,022
Net assets without donor restrictions	<u>1,060,984</u>	<u>1,115,471</u>
	<u>\$ 1,422,699</u>	<u>\$ 1,156,493</u>

See notes to financial statements

Literacy Trust, Inc.

Statements of Activities

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
REVENUE AND PUBLIC SUPPORT		
Program service revenue	\$ 1,171,430	\$ 1,219,856
Contributions	1,274,192	858,800
Other income	7,801	-
Total Revenue and Public Support	<u>2,453,423</u>	<u>2,078,656</u>
EXPENSES		
Program	1,622,278	1,427,751
Management and general	734,791	380,504
Fundraising	<u>150,841</u>	<u>206,464</u>
Total Expenses	<u>2,507,910</u>	<u>2,014,719</u>
Change in Net Assets	(54,487)	63,937
NET ASSETS		
Beginning of year	<u>1,115,471</u>	<u>1,051,534</u>
End of year	<u>\$ 1,060,984</u>	<u>\$ 1,115,471</u>

See notes to financial statements

Literacy Trust, Inc.

Statement of Functional Expenses
Year Ended June 30, 2020

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 1,001,100	\$ 252,433	\$ 61,600	\$ 1,315,133
Fringe benefits	230,663	57,037	14,761	302,461
Contract service	405	67,477	60,051	127,933
Professional fees	-	40,996	-	40,996
Office expenses	29,866	77,207	9,914	116,987
Program expenses	307,553	-	3,184	310,737
Transportation	16,139	3,247	1,227	20,613
Occupancy	36,119	163,728	-	199,847
Conference	-	1,068	75	1,143
Bad debt	-	54,906	-	54,906
Depreciation and amortization	-	1,937	-	1,937
Other expenses	<u>433</u>	<u>14,755</u>	<u>29</u>	<u>15,217</u>
 Total Expenses	 <u>\$ 1,622,278</u>	 <u>\$ 734,791</u>	 <u>\$ 150,841</u>	 <u>\$ 2,507,910</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	<u>99</u>	<u>15,754</u>	<u>617</u>	<u>16,470</u>
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.

Statements of Cash Flows

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (54,487)	\$ 63,937
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,937	-
Deferred rent	55,309	-
Bad debt expense	54,906	-
Net change in operating assets and liabilities		
Accounts receivable	(308,706)	(119,023)
Contributions receivable	-	30,000
Prepaid expenses	(9,080)	22,484
Accounts payable and accrued expenses	(27,165)	(30,551)
Deferred revenue	-	(60,000)
Net Cash from Operating Activities	<u>(287,286)</u>	<u>(93,153)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Security deposits made	-	(57,580)
Purchase of property, equipment and software	<u>(143,556)</u>	<u>-</u>
Net Cash from Investing Activities	<u>(143,556)</u>	<u>(57,580)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP loan	<u>292,549</u>	<u>-</u>
Change in Cash and Cash Equivalents	<u>(138,293)</u>	<u>(150,733)</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>704,947</u>	<u>855,680</u>
End of year	<u>\$ 566,654</u>	<u>\$ 704,947</u>

See notes to financial statements

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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.

Adoption of New Accounting Policies

Revenue from Contracts with Customers

Effective July 1, 2019, the Trust adopted ASU 2014-09, *Revenue from Contracts with Customers*, as amended. This guidance provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. This guidance requires new or expanded disclosures related to judgements made by entities when following this framework.

Analysis of the various provisions of this standard resulted in no significant changes in the way the Trust recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. Program service fees revenue is recognized on a reimbursement basis. This new guidance requires the Trust to not recognize revenue until it is probable of collection. Based on the Trust's prior collection history, the Trust has concluded that all revenue recognized is probable of collection.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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

Adoption of New Accounting Policies (continued)

Contributions Received and Contributions Made

Effective July 1, 2019, the Trust adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as non-exchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the Trust recognized contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Property, Equipment and Software

The Trust 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 the cost and related accumulated depreciation is removed from the accounts and any gain or loss is reported in the statement 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 for 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, 2020 and 2019.

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. 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, 2020 and 2019

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, 2020 and 2019.

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, 2017.

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 February 12, 2021.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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:

	June 30	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 566,654	\$ 704,947
Accounts receivable, net	<u>614,906</u>	<u>361,106</u>
Total financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,181,560</u>	<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, 2020 and 2019 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, 2020 and 2019.

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, 2020 and 2019, the Trust had accounts receivable of approximately \$479,000 and \$301,000 from two entities. This amount represented approximately 72% and 83% of total outstanding accounts receivable as of June 30, 2020 and 2019.

For years ended June 30, 2020 and 2019, the Trust received program service revenue of approximately 95% and 93% from three entities. For years ended June 30, 2020 and 2019, the Trust had contributions of approximately 97% and 98% 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, 2020 and 2019

7. Property, Equipment and Software

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

	<u>2020</u>
Furniture, fixtures and equipment	\$ 8,886
Leasehold improvements	10,913
Construction-in progress - Software	<u>123,757</u>
	143,556
Less: accumulated depreciation and amortization	<u>(1,937)</u>
	<u>\$ 141,619</u>

8. PPP Loan Payable

On April 14, 2020, the Trust received loan proceeds in the amount of \$292,549 under the Paycheck Protection Program ("PPP Loan"). 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 loan and accrued interest are forgivable after eight or twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period. If subsequently a portion of the loan is deemed forgiven, the unforgiven portion of the PPP Loan is payable over two years at an interest rate of 1% with a deferral of payments for the first six months.

9. Contracts

Subsequent to year end, the Trust was awarded approximately \$2,532,617 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.

10. 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 \$25,107 for the year ended June 30, 2020 and \$24,680 for the year ended June 30, 2019.

Literacy Trust, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

11. 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:

2021	\$	118,893
2022		122,190
2023		125,855
2024		129,631
2025		133,520
Thereafter		<u>208,352</u>
	\$	<u>838,441</u>

Rent expense totaled \$199,657 and \$117,322 for 2020 and 2019.

12. 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 the Trust will need to implement further measures. In light of the uncertainty as to the severity and duration of the pandemic, the impact on the Trust's revenue, profitability, and financial position is uncertain at this time.

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