# LITERACY ACTION, INC.

## FINANCIAL REPORT

## JUNE 30, 2017

# LITERACY ACTION, INC.

# FINANCIAL REPORT
# JUNE 30, 2017

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# INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees**
**Literacy Action, Inc.**
**Atlanta, Georgia**

We have audited the accompanying financial statements of **Literacy Action, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 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 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 Action, Inc. as of June 30, 2017 and 2016, 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
September 29, 2017

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# LITERACY ACTION, INC.

## STATEMENTS OF FINANCIAL POSITION
## JUNE 30, 2017 AND 2016

| Assets | 2017 | 2016 |
|---|---|---|
| **Current assets** | | |
| Cash - unrestricted | **$ 481,612** | $ 249,008 |
| Cash - temporarily restricted | **458,054** | 2,754 |
| Total cash | **939,666** | 251,762 |
| Accounts receivable | **230,312** | - |
| Grants receivable - temporarily restricted, net | **321,053** | 135,674 |
| Pledges receivable, net - temporarily restricted, net | **5,769** | 189,847 |
| Prepaid expenses and other assets | **142,001** | 10,612 |
| Inventories | **5,481** | 5,481 |
| Investments | **114,425** | 194,321 |
| Total current assets | **1,758,707** | 787,697 |
| **Property and equipment, net** | **142,958** | 69,795 |
| **Total assets** | **$ 1,901,665** | $ 857,492 |

| Liabilities and Net Assets | 2017 | 2016 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable and accrued expenses | **$ 22,044** | $ 41,301 |
| Total current liabilities | **22,044** | 41,301 |
| **Noncurrent liabilities** | | |
| Long term deferred rent | **138,821** | 178,928 |
| Total noncurrent liabilities | **138,821** | 178,928 |
| **Total liabilities** | **160,865** | 220,229 |
| **Net assets** | | |
| Unrestricted | | |
| Undesignated | **741,737** | 308,988 |
| Deisgnated by the board | **214,187** | - |
| Total unrestricted | **955,924** | 308,988 |
| Temporarily restricted | **784,876** | 328,275 |
| | **1,740,800** | 637,263 |
| **Total liabilities and net assets** | **$ 1,901,665** | $ 857,492 |

**See Notes to Financial Statements.**

# LITERACY ACTION, INC.

## STATEMENTS OF ACTIVITIES
## YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Total** | Unrestricted | Temporarily Restricted | Total |
| Revenues, gains, and other support | | | | | | |
| Contributions | **$ 346,249** | **$ 604,833** | **$ 951,082** | $ 1,230,566 | $ 252,847 | $ 1,483,413 |
| Grants | **738,506** | **251,569** | **990,075** | 210,661 | 135,674 | 346,335 |
| Investment income (loss) | **35,408** | **-** | **35,408** | (1,216) | - | (1,216) |
| Special events | **62,578** | **-** | **62,578** | 242,393 | - | 242,393 |
| Other income | **30,536** | **-** | **30,536** | 26,807 | - | 26,807 |
| Lease termination income | **1,151,561** | **-** | **1,151,561** | - | - | - |
| Net assets released from restrictions: | | | | | | |
| Satisfaction of program and time restrictions | **399,801** | **(399,801)** | **-** | 206,709 | (206,709) | - |
| Total revenues, gains, and other support | **2,764,639** | **456,601** | **3,221,240** | 1,915,920 | 181,812 | 2,097,732 |
| Program and support services | | | | | | |
| Program services | **1,574,948** | **-** | **1,574,948** | 1,607,099 | - | 1,607,099 |
| Support services | | | | | | |
| Management and general | **193,688** | **-** | **193,688** | 197,642 | - | 197,642 |
| Fundraising | **349,066** | **-** | **349,066** | 352,736 | - | 352,736 |
| Total support services | **542,755** | **-** | **542,755** | 550,378 | - | 550,378 |
| Total program and support services | **2,117,703** | **-** | **2,117,703** | 2,157,477 | - | 2,157,477 |
| Change in net assets | **646,936** | **456,601** | **1,103,537** | (241,557) | 181,812 | (59,745) |
| Net assets, beginning of year | **308,988** | **328,275** | **637,263** | 550,545 | 146,463 | 697,008 |
| Net assets, end of year | **$ 955,924** | **$ 784,876** | **$ 1,740,800** | $ 308,988 | $ 328,275 | $ 637,263 |

**See Notes to Financial Statements.**

# LITERACY ACTION, INC.

## STATEMENT OF FUNCTIONAL EXPENSES
## YEAR ENDED JUNE 30, 2017

| | Program Services | Support Services: Management and General | Support Services: Fundraising | Total Support Services | Total Program and Support Services |
|---|---|---|---|---|---|
| Personnel and contract labor | $ 1,084,563 | $ 133,380 | $ 235,015 | $ 368,395 | $ 1,452,958 |
| Supplies and instructional materials | 13,837 | 1,702 | 2,998 | 4,700 | 18,537 |
| Travel, entertainment, and meetings | 37,502 | 4,612 | 8,126 | 12,738 | 50,240 |
| Rent | 189,688 | 23,328 | 41,104 | 64,432 | 254,120 |
| Professional services | 29,658 | 3,647 | 6,427 | 10,074 | 39,732 |
| Marketing | 23,599 | 2,902 | 5,114 | 8,016 | 31,615 |
| Depreciation | 16,017 | 1,970 | 3,471 | 5,440 | 21,457 |
| Fundraising | - | - | 7,789 | 7,789 | 7,789 |
| Postage and shipping | 2,615 | 322 | 567 | 888 | 3,503 |
| Equipment rental and maintenance | 5,915 | 727 | 1,282 | 2,009 | 7,924 |
| Printing and production | 7,660 | 942 | 1,660 | 2,602 | 10,262 |
| Events | 14,728 | 1,811 | 3,191 | 5,003 | 19,731 |
| Other expenses | 149,167 | 18,345 | 32,323 | 50,668 | 199,835 |
| **Total expenses** | $ 1,574,948 | $ 193,688 | $ 349,066 | $ 542,755 | $ 2,117,703 |

**See Notes to Financial Statements.**

# LITERACY ACTION, INC.

## STATEMENT OF FUNCTIONAL EXPENSES
## YEAR ENDED JUNE 30, 2016

| | | Support Services | | | Total |
|---|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total Support Services | Total Program and Support Services |
| Personnel and contract labor | $ 1,029,142 | $ 126,565 | $ 223,006 | $ 349,571 | $ 1,378,713 |
| Supplies and instructional materials | 19,188 | 2,360 | 4,158 | 6,518 | 25,706 |
| Travel, entertainment, and meetings | 39,676 | 4,879 | 8,597 | 13,476 | 53,152 |
| Rent | 223,603 | 27,499 | 48,453 | 75,952 | 299,555 |
| Professional services | 37,926 | 4,664 | 8,218 | 12,882 | 50,808 |
| Marketing | 95,726 | 11,772 | 20,743 | 32,515 | 128,241 |
| Depreciation | 16,202 | 1,993 | 3,511 | 5,504 | 21,706 |
| Fundraising | - | - | 4,492 | 4,492 | 4,492 |
| Postage and shipping | 1,770 | 218 | 384 | 602 | 2,372 |
| Equipment rental and maintenance | 3,582 | 441 | 776 | 1,217 | 4,799 |
| Printing and production | 15,352 | 1,888 | 3,327 | 5,215 | 20,567 |
| Events | 9,486 | 1,167 | 2,056 | 3,223 | 12,709 |
| Other expenses | 115,446 | 14,196 | 25,015 | 39,211 | 154,657 |
| **Total expenses** | $ 1,607,099 | $ 197,642 | $ 352,736 | $ 550,378 | $ 2,157,477 |

**See Notes to Financial Statements.**

# LITERACY ACTION, INC.

## STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | $ 1,103,537 | $ (59,745) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 21,457 | 21,706 |
| Unrealized (gain) loss on investments | (13,876) | 9,182 |
| Realized (gain) on investments | (3,500) | (3,974) |
| Change in prepaid expenses | (131,389) | 10,653 |
| Change in grants receivable | (185,379) | (75,010) |
| Change in pledges receivable | 184,078 | (135,847) |
| Change in accounts receivable | (230,312) | - |
| Change in accounts payable and accrued expenses | (19,257) | 10,336 |
| Change in long term deferred rent | (40,107) | 51,214 |
| | (418,285) | (111,740) |
| Net cash provided by (used in) operating activities | 685,252 | (171,485) |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (94,620) | (3,029) |
| Purchase of investments | (123,562) | (46,379) |
| Proceeds from sale of investments | 220,834 | 43,801 |
| Net cash provided by (used in) investing activities | 2,652 | (5,607) |
| Net increase (decrease) in cash | 687,904 | (177,092) |
| Cash, beginning of year | 251,762 * | 428,854 * |
| Cash, end of year | $ 939,666 * | $ 251,762 * |

* Includes temporarily restricted funds.

**See Notes to Financial Statements.**

## NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

Literacy Action, Inc. (the "Organization") was incorporated on June 12, 1968, for the purpose of teaching adults the basic skills they will need to reach their full potential as individuals and citizens. The Organization is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Organization is supported primarily by donor contributions. The Organization concentrates its services in the Atlanta, Georgia area.

### Significant Accounting Policies

The significant accounting policies adopted by the Organization are set forth below.

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### Basis of Presentation

The Organization presents its financial statements in accordance with *Financial Statements for Not-For-Profit Organizations,* as promulgated by the Financial Accounting Standards Board (FASB). Under this guidance, the Organization is required to report information regarding its financial position and activities according to three categories of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization had no permanently restricted net assets at June 30, 2017 or 2016.

#### Contributions

In accordance with *Financial Statements for Not-For-Profit Organizations*, contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### Donated Services and In-Kind Support

The Organization receives services, equipment and other nonfinancial items without payment or compensation. Donated goods and services are recognized as contributions in accordance with *Financial Statements for Not-For-Profit Organizations*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. Volunteers provide a significant amount of services to the Organization throughout the year that are not recognized as contributions since the recognition criteria under this standard were not met.

Donated services and in-kind support for the years ended June 30, 2017 and 2016, was $243,009 and $237,789, respectively.

## NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant Accounting Policies (Continued)

#### Contributions Receivable

Contributions receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts using management's estimates of probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivables.

The provision for bad debts relating to contributions is charged to expense based on an evaluation of the potentially uncollectible portion of accounts. The allowance for doubtful accounts represents the estimate of the uncollectible portion of accounts receivable.

#### Revenue Recognition

Unconditional promises to give are recognized as support in the period in which the promise is made by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Grant awards are classified as refundable advances until expended for the purposes of the grants since they are conditional promises to give.

#### Investments

Under FASB's Accounting Standards Codification (ASC) *Fair Value Measurement*, investments in marketable securities with readily determinable fair values, based on quoted market prices, are reported at their fair values in the statement of financial position. All non-cash contributions are recorded at fair value on the date of receipt. Unrealized gains and losses are included in the change in net assets.

#### Investment Income and Gains

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

## NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant Accounting Policies (Continued)

#### Property and Equipment

Assets are recorded at cost, or if donated, at the approximate fair value at the date of donation and are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 7 years. All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets in excess of $1,000 are capitalized. Maintenance and repairs are charged to expense. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any gain or loss is reflected in changes in net assets.

#### Concentrations of Credit Risk

The Organization maintains cash balances at a financial institution and at an investment company located in Atlanta, Georgia. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation for up to $250,000. The Organization does not have any uninsured cash or investment balances at June 30, 2017.

#### Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of support and expenses during the report period. Accordingly, actual results may vary from these estimates.

#### Income Tax Status

The Organization is exempt from governmental income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. In addition, the Organization is classified as other than a private foundation and qualifies for the charitable contribution deduction. However, income from certain activities not directly related to the Organization’s tax-exempt purpose would be subject to taxation as unrelated business income. The Organization had no activities which would result in unrelated business income for the years ended June 30, 2017 and 2016. Accordingly, no income taxes have been considered in determining its change in net assets. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Management is not aware of any circumstances or transactions that would jeopardize its tax exempt status.

## NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Significant Accounting Policies (Continued)

#### Income Tax Status (Continued)

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. There currently are no audits of the Organization's returns in progress.

#### Fair Value of Financial Instruments

FASB's *Fair Value Measurement* and disclosure guidance provides a framework for measuring fair value under generally accepted accounting principles. This standard applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in FASB's *Fair Value Measurement*, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization used various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the assets or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Organization utilizes valuation techniques that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

*Level 1* – Valuations for assets and liabilities traded in active markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

*Level 2* – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services identical or similar assets or liabilities.

*Level 3* – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

For the years ended June 30, 2017 and 2016, the application of valuation techniques applied to similar assets has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available or market prices provided by recognized broker-dealers.

## NOTE 2. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy described in Note 1, the Organization's investments at fair value as of June 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Fixed income funds: | | | | |
| Corporate bonds | **$ 20,068** | **$ -** | **$ -** | **$ 20,068** |
| Equity funds | **94,357** | **-** | **-** | **94,357** |
| Total investments at fair value | **$ 114,425** | **$ -** | **$ -** | **$ 114,425** |

The following table sets forth by level, within the fair value hierarchy described in Note 1, the Organization's investments at fair value as of June 30, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money markets | $ 7,190 | $ - | $ - | $ 7,190 |
| Fixed income funds: | | | | |
| Municipal bonds | 20,782 | - | - | 20,782 |
| Corporate bonds | 26,733 | - | - | 26,733 |
| Equity funds | 139,616 | - | - | 139,616 |
| Total investments at fair value | $ 194,321 | $ - | $ - | $ 194,321 |

Investment expense incurred totaled $1,152 and $1,139 for the years ended June 30, 2017 and 2016, respectively.

Total investment return reported in the statement of activities for the year ended June 30, 2017, is as follows:

| | Unrestricted |
|---|---|
| Interest and dividend income - on investments* | **$ 18,032** |
| Net realized gains | **3,500** |
| Net unrealized gains | **13,876** |
| | **$ 35,408** |

* This does not include interest earnings on cash.

Total investment return reported in the statement of activities for the year ended June 30, 2016, is as follows:

| | Unrestricted |
|---|---|
| Interest and dividend income - on investments* | $ 3,992 |
| Net realized gains | 3,974 |
| Net unrealized (losses) | (9,182) |
| | $ (1,216) |

* This does not include interest earnings on cash.

## NOTE 2. INVESTMENTS (CONTINUED)

Investments are comprised of the following at June 30, 2017:

| | Cost | Fair Value |
|---|---|---|
| Bonds: | | |
| Corporate bonds | **$ 20,152** | **$ 20,068** |
| Equities: | | |
| Consumer goods | **6,263** | **6,242** |
| Preferred equities | **5,044** | **5,038** |
| Energy | **11,205** | **9,864** |
| Financials | **9,202** | **10,305** |
| Health care & industrials | **24,582** | **25,203** |
| Information technology | **19,817** | **20,740** |
| Telecommunication services | **7,434** | **6,849** |
| Real estate | **4,593** | **4,277** |
| Materials & utilities | **5,926** | **5,839** |
| | **$ 114,218** | **$ 114,425** |

Investments are comprised of the following at June 30, 2016:

| | Cost | Fair Value |
|---|---|---|
| Money market | $ 7,190 | $ 7,190 |
| Bonds: | | |
| Municipal bonds | 20,025 | 20,782 |
| Corporate bonds | 26,054 | 26,733 |
| Equities: | | |
| Consumer goods | 20,156 | 27,321 |
| Energy | 15,202 | 15,628 |
| Financials | 20,806 | 22,906 |
| Health care & industrials | 25,688 | 31,710 |
| Information technology | 22,738 | 26,559 |
| Telecommunication services | 4,597 | 6,312 |
| Materials & utilities | 7,914 | 9,180 |
| | $ 170,370 | $ 194,321 |

## NOTE 3. LEASES

The Organization signed a lease termination agreement with their previous landlord on March 8, 2017. The landlord agreed to pay the Organization $1,151,561 in consideration of the early termination of the lease. The lease will officially terminate on July 31, 2017.

The Organization leases office space and equipment under operating lease agreements expiring at various times through 2024. The minimum future lease payments under the leases are summarized as follows:

| For the year ending June 30: | |
|---|---|
| 2018 | $ 291,808 |
| 2019 | 283,901 |
| 2020 | 292,342 |
| 2021 | 301,128 |
| 2022 | 310,086 |
| After | 664,601 |
| | $ 2,143,866 |

The Organization entered into a new office lease executed on February 28, 2017. The lease begins on July 1, 2017. The lease is for a 7 year period, expiring on June 30, 2024. Monthly rents range from $22,969 to $27,420 over the life of the lease. Total minimum lease payments over the life of the lease will equal $2,111,514.

## NOTE 4. COMMUNITY FOUNDATION RESTRICTED FUNDS

The Community Foundation for Greater Atlanta, as of June 30, 2017 and 2016, has a restricted fund with Literacy Action, Inc. as the designated beneficiary for the use of the funds in the amount of $318,377 and $309,776 respectively. The Community Foundation for Greater Atlanta maintains variance power over the restricted funds, and therefore, the funds are not recorded on the financial statements of the Organization. The purpose of the restricted endowment fund is to aid and assist Literacy Action, Inc. in carrying out its charitable programs and pursuing its long-term financial stability. This fund is subject to The Community Foundation for Greater Atlanta's governing instruments. It is the general policy of the Foundation that a substantial part of its restricted funds shall remain as a permanent endowment of the Foundation.

It also is a general policy of the Foundation that the net earnings of the fund shall be distributed annually during the fiscal year in which such earnings are realized or before the end of the next fiscal year, unless it is determined that it is in the best interest of the Foundation and Literacy Action, Inc. to accumulate the net earnings for a specific project. Consistent with the policies of the Foundation, the earnings and so much of the principal of the fund as the Foundation and Literacy Action, Inc. in their discretion shall determine shall be expended.

If at any time the Foundation and Literacy Action, Inc. are unable to agree on distributions of principal, the Board of Directors of the Foundation shall make the final determination in its absolute discretion. During the years ended June 30, 2017 and 2016, $16,668 and $18,895 was received from The Community Foundation for Greater Atlanta and was recorded in contributions in the statements of activities.

## NOTE 5. FLEXIBLE BENEFIT PLAN

Effective May 1, 2000, the Organization adopted a flexible benefit plan that is a "premium payment plan" which allows eligible employees to pay for insurance coverage with a portion of their pay before federal income, state income or social security taxes are withheld. The plan applies only to the Organization's group medical plan and the insured dental plan. All full time employees are eligible to join upon the date of employment. The plan begins on May 1st and ends on April 30th each year.

## NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the capital campaign as well as various programs.

Temporarily restricted net assets are available for the following purposes at June 30:

| | **2017** | 2016 |
|---|---|---|
| Capital campaign | **$ 455,300** | $ - |
| LAMA | **2,754** | 2,754 |
| Program expenses | **326,822** | 325,521 |
| | **$ 784,876** | $ 328,275 |

Temporarily restricted net assets consist of the following at June 30:

| | **2017** | 2016 |
|---|---|---|
| Cash | **$ 458,054** | $ 2,754 |
| Pledge and grant receivables | **326,822** | 325,521 |
| | **$ 784,876** | $ 328,275 |

## NOTE 7. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2017 and 2016, by incurring expenses satisfying the restricted purposes specified by donors as follows:

| | **2017** | 2016 |
|---|---|---|
| Payment to Literacy Alliance of Metro Atlanta | **$ -** | $ 92,045 |
| Capital move | **118,000** | - |
| Program expenses | **281,801** | 114,664 |
| | **$ 399,801** | $ 206,709 |

## NOTE 8. PLEDGES RECEIVABLE

As of June 30, 2017 and 2016, unconditional promises to give consisted of the following:

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Temporarily-restricted pledges | **$ 7,693** | $ 189,847 |
| Less allowance for doubtful accounts | **(1,923)** | - |
| | **$ 5,770** | $ 189,847 |
| **Amount due in:** | | |
| Less than one year | **$ 5,770** | $ 189,847 |
| One to five years | **-** | - |
| | **$ 5,770** | $ 189,847 |

## NOTE 9. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. A summary of the amounts and the related accumulated depreciation at June 30, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Furniture and fixtures | **$ 68,908** | $ 68,908 |
| Equipment and software | **223,728** | 182,363 |
| Leasehold improvements | **167,384** | 114,129 |
| | **460,020** | 365,400 |
| Accumulated depreciation | **(317,062)** | (295,605) |
| | **$ 142,958** | $ 69,795 |

Depreciation expense for the years ended June 30, 2017 and 2016 amounted to $21,457 and $21,706, respectively.

## NOTE 10. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring through September 29, 2017, the date on which the financial statements were available to be issued.