

**LITERACY ACTION, INC.**

**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

**with**  
**INDEPENDENT AUDITORS' REPORT**

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## INDEPENDENT AUDITORS' REPORT

### **Board of Trustees of Literacy Action, Inc.**

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, 2020 and 2019, and the related statements of activities and changes in net assets, 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Action, 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 conformity with accounting principles generally accepted in the United States of America.

*Smith + Howard*

September 11, 2020

**LITERACY ACTION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2020 AND 2019**

**ASSETS**

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 438,323	\$ 494,719
Investments	209,870	232,114
Accounts receivable	2,151	998
Grants and pledges receivable	138,541	199,777
Prepaid expenses	17,995	23,927
Property and equipment, net	68,891	88,695
Other assets	<u>22,969</u>	<u>22,969</u>
 Total Assets	 <u>\$ 898,740</u>	 <u>\$ 1,063,199</u>

**LIABILITIES AND NET ASSETS**

Liabilities		
Accounts payable and accrued expenses	\$ 31,880	\$ 93,155
Deferred sponsorships	13,650	-
Deferred rent	<u>47,906</u>	<u>44,702</u>
 Total Liabilities	 <u>93,436</u>	 <u>137,857</u>
 Net Assets		
Without donor restrictions	665,276	727,221
With donor restrictions	<u>140,028</u>	<u>198,121</u>
 Total Net Assets	 <u>805,304</u>	 <u>925,342</u>
	 <u>\$ 898,740</u>	 <u>\$ 1,063,199</u>

The accompanying notes are an integral part of these financial statements.

**LITERACY ACTION, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>			<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support						
Contributions and grants	\$ 1,039,627	139,886	\$ 1,179,513	\$ 962,795	\$ 589,751	\$ 1,552,546
Paycheck protection program grant (Note B)	169,407	-	169,407	-	-	-
Investment income (loss), net	(3,917)	-	(3,917)	17,725	-	17,725
Special events	27,225	-	27,225	-	-	-
Fees for service	11,427	-	11,427	44,996	-	44,996
Other income	71,922	-	71,922	32,326	-	32,326
Net assets released from restrictions	<u>197,979</u>	<u>(197,979)</u>	<u>-</u>	<u>391,630</u>	<u>(391,630)</u>	<u>-</u>
 Total Revenue, Gains, and Other Support	 <u>1,513,670</u>	 <u>(58,093)</u>	 <u>1,455,577</u>	 <u>1,449,472</u>	 <u>198,121</u>	 <u>1,647,593</u>
Expenses						
Program services	1,147,988	-	1,147,988	1,129,929	-	1,129,929
Management and general	243,221	-	243,221	325,374	-	325,374
Fundraising	<u>184,406</u>	<u>-</u>	<u>184,406</u>	<u>181,053</u>	<u>-</u>	<u>181,053</u>
 Total Expenses	 <u>1,575,615</u>	 <u>-</u>	 <u>1,575,615</u>	 <u>1,636,356</u>	 <u>-</u>	 <u>1,636,356</u>
 Change in Net Assets	 (61,945)	 (58,093)	 (120,038)	 (186,884)	 198,121	 11,237
 Net Assets, Beginning of Year	 <u>727,221</u>	 <u>198,121</u>	 <u>925,342</u>	 <u>914,105</u>	 <u>-</u>	 <u>914,105</u>
 Net Assets, End of Year	 <u>\$ 665,276</u>	 <u>\$ 140,028</u>	 <u>\$ 805,304</u>	 <u>\$ 727,221</u>	 <u>\$ 198,121</u>	 <u>\$ 925,342</u>

The accompanying notes are an integral part of these financial statements.

**LITERACY ACTION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2020**

	<b><u>Program Services</u></b>	<b><u>Management and General</u></b>	<b><u>Fundraising</u></b>	<b><u>Total</u></b>
Personnel and contract labor	\$ 704,142	\$ 103,291	\$ 109,480	\$ 916,913
Rent	272,112	28,652	5,903	306,667
Professional services	52,124	80,017	48,200	180,341
Supplies and instructional materials	17,290	1,480	86	18,856
Supporting services	37,378	-	-	37,378
Fundraising	-	-	11,337	11,337
Telephone and internet	10,675	4,934	777	16,386
Travel, entertainment, and meetings	4,650	1,248	50	5,948
Depreciation	15,250	4,258	296	19,804
Dues and subscriptions	901	3,606	3,045	7,552
Printing and production	399	283	2,666	3,348
Marketing	12,479	-	504	12,983
Insurance and compliance	820	9,005	10	9,835
Equipment rental and maintenance	313	1,526	-	1,839
Postage and shipping	183	79	1,631	1,893
Other expenses	<u>19,272</u>	<u>4,842</u>	<u>421</u>	<u>24,535</u>
 Total Expenses	 <u>\$ 1,147,988</u>	 <u>\$ 243,221</u>	 <u>\$ 184,406</u>	 <u>\$ 1,575,615</u>

The accompanying notes are an integral part of these financial statements.

**LITERACY ACTION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2019**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel and contract labor	\$ 665,436	\$ 162,487	\$ 106,965	\$ 934,888
Rent	247,881	50,938	5,037	303,856
Professional services	50,012	80,979	25,600	156,591
Supplies and instructional materials	45,184	4,144	-	49,328
Supporting services	35,388	261	39	35,688
Fundraising	-	205	32,295	32,500
Telephone and internet	10,570	4,422	776	15,768
Travel, entertainment, and meetings	17,080	902	106	18,088
Depreciation	17,006	4,748	331	22,085
Dues and subscriptions	16,087	4,014	2,366	22,467
Printing and production	2,023	647	4,009	6,679
Marketing	1,332	894	142	2,368
Insurance and compliance	5,543	2,740	284	8,567
Equipment rental and maintenance	191	1,715	-	1,906
Postage and shipping	284	504	971	1,759
Other expenses	<u>15,912</u>	<u>5,774</u>	<u>2,132</u>	<u>23,818</u>
 Total Expenses	 <u>\$ 1,129,929</u>	 <u>\$ 325,374</u>	 <u>\$ 181,053</u>	 <u>\$ 1,636,356</u>

The accompanying notes are an integral part of these financial statements.

**LITERACY ACTION, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (120,038)	\$ 11,237
Adjustments to Reconcile Change in Net Assets to Net Cash Required by Operating Activities:		
Depreciation	19,804	22,085
Change in deferred rent	3,204	18,689
Net realized and unrealized (gain) loss on investments	10,984	(12,352)
Bad debt expense	-	500
Change in operating assets and liabilities:		
Accounts receivable and other receivables	(1,153)	(998)
Grants and pledges receivable	61,236	(160,106)
Prepaid expenses and other assets	5,932	(878)
Accounts payable and accrued expenses	(61,275)	43,788
Deferred sponsorships	13,650	-
Net Cash Required by Operating Activities	<u>(67,656)</u>	<u>(78,035)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(30,921)	(69,916)
Proceeds from sale of investments	42,181	56,450
Net Cash Provided (Required) by Investing Activities	<u>11,260</u>	<u>(13,466)</u>
Net Decrease in Cash and Cash Equivalents	(56,396)	(91,501)
Cash and Cash Equivalents at Beginning of Year	<u>494,719</u>	<u>586,220</u>
Cash and Cash Equivalents at End of Year	<u>\$ 438,323</u>	<u>\$ 494,719</u>

The accompanying notes are an integral part of these financial statements.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE A – DESCRIPTION OF THE 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 supported primarily by donor contributions and grants from various organizations and foundations. The Organization concentrates its services in the Atlanta, Georgia area.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting and Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets accounting principles generally accepted in the United States of America (“GAAP”).

Accounting Pronouncement Adopted

Effective July 1, 2019, the Organization adopted ASU 2014-09, “*Revenue from Contracts with Customers*” (Topic 606) and the related ASUs, which provided new guidance for revenue recognized from contracts with customers and replaced the previously existing revenue recognition guidance. ASU 2014-09 requires that revenue be recognized at an amount the Organization is entitled to upon transferring control of goods or services to customers, as opposed to when risks and rewards transfer to a customer. The Organization adopted the new ASU using the full retrospective approach. The adoption of this ASU did not have a significant impact on the Organization’s financial statements.

No changes were required to previously reported revenues or the beginning net asset balance as a result of the adoption, nor were any contract assets or contract liabilities created upon adoption of the standard. Based on the Organization’s evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard.

Effective July 1, 2019, the Organization also adopted ASU 2018-08, “*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*”. The amendments in this update provide a framework for evaluating whether the transfer of assets constitutes a contribution or an exchange transaction. This amendment also provides additional clarification as to whether or not a contribution is conditional. The adoption of the ASU did not have a material impact on the Organization’s financial position, activities and changes in net assets and cash flows as of and for the year ended June 30, 2020.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Presentation

In accordance with GAAP, the net assets of the Organization and changes therein are classified and reported as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.
- Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. The Organization did not have any net assets of a perpetual nature of June 30, 2020 or 2019.

Contributions and Grants

In accordance with GAAP, all contributions, grants, and unconditional promises to give are recorded as support with donor restrictions or support without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts on unconditional pledges is included in contributions and grants in the accompanying statement of activities and changes in net assets.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions and Grants (Continued)

Conditional pledges are not included as support until the conditions are substantially met. In addition, the Organization elected the net asset release policy option for contributions with donor restrictions that were initially conditional contributions. As part of this election, the Organization reports contributions restricted by donors (that were conditional in nature) as increase in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized.

The Organization recognizes contributions and grants as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and presented in the accompanying statement of activities and changes in net assets as net assets released from restrictions.

Fees for Service

The Organization's Fees for Service consist of various educational courses for basic adult education, English as a secondary language, and digital literacy. Additionally, the Organization has programs that help adults prepare for the workforce and citizenship education courses. These services are performed on a contract basis for other entities. Revenues for these fees are recognized over time as the services are rendered and generally do not include multiple performance obligations.

Paycheck Protection Program Grant

In April 2020, the Organization obtained a Small Business Administration loan under the Paycheck Protection Program ("PPP") in the amount of \$169,407. The PPP loan bears interest at 1.00% and may require repayment under certain circumstances. Under the terms of Coronavirus Aid, Relief, and Economic Securities Act (the "Cares Act"), the Organization may apply with the lending institution for PPP loan proceeds used within a specified time period to be forgiven, provided the proceeds are used to cover certain payroll and other expenses as defined by the Cares Act.

As of June 30, 2020, management believes all PPP loan proceeds have been used to pay qualifying expenses as outlined within the Cares Act and has satisfied all conditions to recognize grant revenues ratably as the qualifying expenses were incurred. Accordingly, the Organization has recognized grant revenue for the full amount of PPP loan in accordance with ASU 2018-08. Management intends to apply for loan forgiveness in 2021.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 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, 2020 and 2019 was approximately \$14,000 and \$107,000, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include cash deposits in checking, money market accounts, and all other highly liquid investments that mature within three months of the statement of financial position date.

Investments

Investments consist of bonds and equity securities. Investments are carried at their estimated fair values. Realized and unrealized gains and losses from investments are reflected in the accompanying statement of activities and changes in net assets.

Interest income and investment earnings available for use are recorded in net assets without donor restrictions. Interest income and investment earnings derived from contributions with donor restrictions are recorded in net assets with donor restrictions.

Property and Equipment

Donations of land, buildings, and equipment are recorded as support at their estimated fair value. Such donations are reported as without donor restriction support unless the donor has restricted the donated asset to a specific purpose. Purchased property and equipment are recorded at cost. Property and equipment are depreciated using accelerated and straight-line methods over their estimated useful lives, which range from five to ten years.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements

FASB establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs in which little or no market data exists (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

*Level 1* - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, assets or liabilities;

*Level 2* - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

*Level 3* - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements (Continued)

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Assets measured at fair value on a recurring basis at June 30, 2020 and 2019 were as follows:

	<u>2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Money Market:</b>	\$ 7,000	\$ -	\$ -	\$ 7,000
<b>Bonds:</b>				
Corporate bonds	\$ 37,712	\$ -	\$ -	\$ 37,712
Government bonds	21,747	-	-	21,747
	<u>59,459</u>	<u>-</u>	<u>-</u>	<u>59,459</u>
<b>Equities:</b>				
Consumer goods	9,873	-	-	9,873
Preferred equities	4,894	-	-	4,894
Energy	5,369	-	-	5,369
Financials	13,817	-	-	13,817
Healthcare and industrials	37,316	-	-	37,316
Information technology	35,157	-	-	35,157
Telecommunication services	21,377	-	-	21,377
Real estate	2,267	-	-	2,267
Materials and utilities	13,341	-	-	13,341
	<u>143,411</u>	<u>-</u>	<u>-</u>	<u>143,411</u>
Total Investments at Fair Value	<u>\$ 209,870</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,870</u>

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements (Continued)

	<u>2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Money Market:</b>	\$ 7,000	\$ -	\$ -	\$ 7,000
<b>Bonds:</b>				
Corporate bonds	35,999	-	-	35,999
Government bonds	20,795	-	-	20,795
	<u>56,794</u>	<u>-</u>	<u>-</u>	<u>56,794</u>
<b>Equities:</b>				
Consumer goods	13,776	-	-	13,776
Preferred equities	4,969	-	-	4,969
Energy	11,445	-	-	11,445
Financials	17,525	-	-	17,525
Healthcare and industrials	52,673	-	-	52,673
Information technology	31,637	-	-	31,637
Telecommunication services	23,345	-	-	23,345
Real estate	4,126	-	-	4,126
Materials and utilities	8,824	-	-	8,824
	<u>168,320</u>	<u>-</u>	<u>-</u>	<u>168,320</u>
Total Investments at Fair Value	<u>\$ 232,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,114</u>

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited on the basis of square footage, payroll, or other relevant bases.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Risks and Uncertainties

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and receivables. At times, cash and cash equivalent balances exceed federally insured amounts. The Organization's cash accounts include both interest and non-interest-bearing accounts. The Organization believes it reduces risks associated with balances in excess of federally insured amounts by maintaining its cash with major financial institutions with sound financial standing. Management continually monitors investments and receivable balances, and believes that its exposure to credit risk is limited. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks could materially affect the amounts reported in the accompanying financial statements.

The Organization has experienced a disruption of normal business operations caused from COVID-19 during 2020 and through the date of this report. The overall financial impact cannot be determined, however, it is reasonably possible that changes in risks in the near term could occur which could result in a material change to the financial statements.

Income Taxes

The Organization is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to income taxes.

The Organization annually evaluates all federal and state income tax positions. This process includes an analysis of whether these income tax positions the Organization takes meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification. In general, the Organization is no longer subject to tax examinations for tax years ending before June 30, 2017.

Subsequent Events

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE C – GRANTS AND PLEDGES RECEIVABLE**

Grants and pledges receivable at June 30 consist of the following:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Gross unamortized grants and pledges receivable	\$ 140,307	\$ 206,293
Less: Unamortized discount	<u>(1,766)</u>	<u>(6,516)</u>
Net grants and pledges receivable	<u><u>\$ 138,541</u></u>	<u><u>\$ 199,777</u></u>
Amounts due in:		
Less than one year	\$ 116,307	\$ 109,293
One to five years	12,000	73,000
Thereafter	<u>12,000</u>	<u>24,000</u>
	<u><u>\$ 140,307</u></u>	<u><u>\$ 206,293</u></u>

**NOTE D – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Furniture and fixtures	\$ 5,648	\$ 5,648
Equipment and software	55,561	55,561
Leasehold improvements	<u>105,129</u>	<u>105,129</u>
	166,338	166,338
Less: accumulated depreciation	<u>(97,447)</u>	<u>(77,643)</u>
	<u><u>\$ 68,891</u></u>	<u><u>\$ 88,695</u></u>

Depreciation expense totaled \$19,804 and \$22,085 for the year ending June 30, 2020 and 2019, respectively.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE E – LINE OF CREDIT**

The Organization has a line a credit bearing interest at the greater of 3.50% and the Prime Rate (an effective rate of 3.50% at June 30, 2020) which matures in October 2020. Maximum borrowings under this line of credit are \$150,000. At June 30, 2020 and 2019, there were no outstanding borrowings under this line of credit. The line of credit is collateralized by certain assets of the Organization.

**NOTE F – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions includes assets subject to certain spending and appropriation policies. The components of these net assets at June 30 were as follows:

	<u>2020</u>	<u>2019</u>
<b>Subject to expenditure for a specified purpose:</b>		
Adult Basic Education	\$ 1,014	\$ 1,160
Digital Literacy	2,800	-
ESL Curriculum	1,151	-
Family Literacy	6,960	-
GED Fast Track	-	1,847
GED Preparation	1,686	-
Student Success Center	36,000	36,000
Vision Clinic	2,849	849
Westside Works	87,568	158,265
	<u>\$ 140,028</u>	<u>\$ 198,121</u>

**NOTE G – OPERATING LEASES**

The Organization has an operating lease for office space expiring on September 30, 2024. Approximate future payments on the office space lease agreement for the years ending June 30 are as follows:

2021	\$ 301,000
2022	310,000
2023	319,000
2024	329,000
2025	82,000
	<u>\$ 1,341,000</u>

Rent expense under the aforementioned operating lease for the years ended June 30, 2020 and 2019 was approximately \$307,000 and \$304,000, respectively.

**LITERACY ACTION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE H – COMMUNITY FOUNDATION FOR GREATER ATLANTA RESTRICTED FUNDS**

The Community Foundation for Greater Atlanta (the “Foundation”), as of June 30, 2020 and 2019, has a restricted fund with the Organization as the designated beneficiary for the use of the funds in the amount of approximately \$305,000 and \$330,000, respectively. The Foundation 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 the Organization in carrying out its charitable programs and pursuing its long-term financial stability. This fund is subject to the Foundation’s governing instruments. It is the general policy of the Foundation that a substantial part of its restricted funds shall remain as an endowment of the Foundation and therefore classified as with donor restriction.

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 the Organization to accumulate the net earnings for a specific project. Appropriation of earnings and principal of the fund are at the discretion of the Foundation and Organization, consistent with the policies of the Foundation.

If at any time, the Foundation and the Organization 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, 2020 and 2019, \$15,056 and \$15,186, respectively, was received from the Foundation and was recorded in contributions in the accompanying statements of activities and changes in net assets.

**LITERACY ACTION, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE I – LIQUIDITY AND AVAILABILITY**

For purposes of analyzing resources available to meet general expenditures for 2021, the Organization considers financial assets that will be collected and available for 2021 programs to the Organization. Financial assets available for general expenditures, within one year are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 438,323	\$ 494,719
Investments	209,870	232,114
Accounts receivable	2,151	998
Grants and pledges receivable	<u>138,541</u>	<u>199,777</u>
Total Financial Assets	788,885	927,608
Less those unavailable for general expenditures within one year, due to donor-imposed restrictions	<u>(140,028)</u>	<u>(198,121)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 648,857</u>	<u>\$ 729,487</u>

The Organization is substantially supported by contributions and program service fees. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to donors. Therefore, certain financial assets may not be available for general expenditures within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a line of credit totaling \$150,000, which it could draw upon.