

**LITERACY ACTION, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018
with
INDEPENDENT AUDITORS' REPORT**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	3-4
STATEMENT OF FINANCIAL POSITION	5
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS	6
STATEMENT OF FUNCTIONAL EXPENSES	7
STATEMENT OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9-16

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 statement of financial position as of June 30, 2018 and the related statements of activities and changes in net assets, functional expense, and cash flows for the year 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 audit. We conducted our audit 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 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, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter – Prior Period Adjustment

As discussed further in Note H, during 2018, management identified a series of accounting matters that led to required restatement of the beginning of year net assets. Certain accounts, including grants and pledges receivable, prepaid expenses and other assets, property and equipment, other assets, accounts payable and accrued expenses, deferred rent, and unearned revenue were affected. The net effects of the restatements has resulted in a net increase of net assets at June 30, 2017 of approximately \$9,000. Our opinion is not modified with respect to this matter.

Smith + Howard

December 11, 2018

LITERACY ACTION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Cash and cash equivalents	\$ 586,220
Investments	206,295
Grants receivable	40,171
Prepaid expenses	23,049
Property and equipment, net	110,781
Other assets	<u>22,969</u>
	<u>\$ 989,485</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 49,367
Deferred rent	<u>26,013</u>
Total Liabilities	75,380
Net Assets - Unrestricted	<u>914,105</u>
	<u>\$ 989,485</u>

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

LITERACY ACTION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains, and Other Support			
Contributions	\$ 368,133	\$ 64,879	\$ 433,012
Grants	824,092	-	824,092
Investment income, net	15,132	-	15,132
Special events	106,487	-	106,487
Other income	51,090	-	51,090
Net assets released from restrictions	<u>620,979</u>	<u>(620,979)</u>	<u>-</u>
Total Revenue, Gains, and Other Support	<u>1,985,913</u>	<u>(556,100)</u>	<u>1,429,813</u>
Expenses			
Program services	1,500,154	-	1,500,154
Management and general	556,477	-	556,477
Fundraising	<u>208,586</u>	<u>-</u>	<u>208,586</u>
Total Expenses	<u>2,265,217</u>	<u>-</u>	<u>2,265,217</u>
Change in Net Assets	(279,304)	(556,100)	(835,404)
Net Assets, Beginning of Year as Previously Stated	955,924	784,876	1,740,800
Prior Period Adjustments (Note H)	<u>237,485</u>	<u>(228,776)</u>	<u>8,709</u>
Net Assets, Beginning of Year as Restated	<u>1,193,409</u>	<u>556,100</u>	<u>1,749,509</u>
Net Assets, End of Year	<u>\$ 914,105</u>	<u>\$ -</u>	<u>\$ 914,105</u>

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

LITERACY ACTION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel and contract labor	\$ 850,205	\$ 314,206	\$ 74,577	\$ 1,238,988
Rent	274,860	76,747	5,354	356,961
Professional services	11,024	56,910	86,189	154,123
Supplies and instructional materials	50,052	10,713	146	60,911
Supporting services	60,026	-	-	60,026
Fundraising	-	-	30,682	30,682
Telephone and internet	23,599	6,589	460	30,648
Travel, entertainment, and meetings	24,357	4,565	32	28,954
Depreciation	14,610	8,625	206	23,441
Dues and subscriptions	11,384	8,761	518	20,663
Printing and production	3,591	3,158	4,485	11,234
Marketing	6,021	2,238	680	8,939
Insurance and compliance	5,009	1,611	191	6,811
Equipment rental and maintenance	4,821	1,364	309	6,494
Postage and shipping	364	521	1,005	1,890
Other expenses	<u>160,231</u>	<u>60,469</u>	<u>3,752</u>	<u>224,452</u>
 Total Expenses	 <u>\$ 1,500,154</u>	 <u>\$ 556,477</u>	 <u>\$ 208,586</u>	 <u>\$ 2,265,217</u>

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

LITERACY ACTION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

Cash Flows from Operating Activities:	
Change in Net Assets	\$ (835,404)
Adjustments to Reconcile Change in Net Assets to Net Cash Required by Operating Activities:	
Depreciation	23,441
Change in straight-line deferred rent	26,013
Net realized and unrealized gain on investments	(11,848)
Loss on disposal of property and equipment	10,681
Change in operating assets and liabilities:	
Accounts receivable and other receivables	233,204
Grants receivable	218,144
Prepaid expenses and other assets	129,389
Accounts payable and accrued expenses	8,990
Unearned revenue	<u>(15,000)</u>
Net Cash Required by Operating Activities	<u>(212,390)</u>
Cash Flows from Investing Activities:	
Purchase of property and equipment	(61,034)
Purchase of investments	(108,718)
Proceeds from sale of investments	<u>28,696</u>
Net Cash Required by Investing Activities	<u>(141,056)</u>
Net Decrease in Cash and Cash Equivalents	(353,446)
Cash and Cash Equivalents at Beginning of Year	<u>939,666</u>
Cash and Cash Equivalents at End of Year	<u>\$ 586,220</u>

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

LITERACY ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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”).

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

- *Unrestricted net assets* contain no donor-imposed restrictions and are available for the general operations of the Organization. Such net assets may be Board designated by the Organization for specific purposes, including functioning as endowment funds. At June 30, 2018, there were no board designated net assets
- *Temporarily restricted net assets* contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Organization and spent in accordance with applicable spending policies. At June 30, 2018, there were no temporarily restricted net assets.
- *Permanently restricted net assets* contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds. At June 30, 2018, there were no permanently restricted net assets.

LITERACY ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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.

Revenue Recognition

Contributions and grants (including unconditional promises to give, i.e., pledges) are recognized as revenue in the year they are received or pledged, with allowances provided by pledges estimated to be uncollectible. 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 in the accompanying statement of activities and changes in net assets. Conditional pledges are not included as support until the conditions are substantially met.

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 temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and presented in the accompanying statement of activities and changes in net assets 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 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 year ended June 30, 2018 was approximately \$4,000.

LITERACY ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 unrestricted net assets. Interest income and investment earnings derived from temporarily and permanently restricted contributions are recorded in temporarily restricted net assets.

Investment income consists of the following for the year ended June 30, 2018:

Interest and dividends	\$ 4,593
Net realized and unrealized gains	11,848
Less: investment fees	<u>(1,309)</u>
	<u>\$ 15,132</u>

Property and Equipment

Donations of land, buildings, and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted 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 three to ten years.

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:

LITERACY ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted 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.

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, 2018 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds:				
Corporate bonds	\$ 33,763	\$ -	\$ -	\$ 33,763
Government bonds	19,923	-	-	19,923
	<u>53,686</u>	<u>-</u>	<u>-</u>	<u>53,686</u>
Equities:				
Consumer goods	23,379	-	-	23,379
Preferred equities	4,731	-	-	4,731
Energy	15,128	-	-	15,128
Financials	15,102	-	-	15,102
Healthcare and industrials	46,483	-	-	46,483
Information technology	31,232	-	-	31,232
Telecommunication services	8,381	-	-	8,381
Real estate	4,765	-	-	4,765
Materials and utilities	3,408	-	-	3,408
	<u>152,609</u>	<u>-</u>	<u>-</u>	<u>152,609</u>
Total Investments at Fair Value	<u>\$ 206,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,295</u>

LITERACY ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing 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.

Concentration of Credit Risk

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.

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, 2015.

During December 2017, the President of the United States of America signed into law the Tax Cuts and Jobs Act (the "Act"). Under this Act, maximum corporate tax rates were reduced from a rate of 35% to a flat rate of 21%. The Organization's tax liability for any potential unrelated business income tax should not be significant. There are other changes to the tax law that may affect the Organization, but the magnitude of such changes has not been determined.

LITERACY ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2018:

Furniture and fixtures	\$	5,648
Equipment and software		55,561
Leasehold improvements		105,129
		166,338
Less: accumulated depreciation		(55,557)
		\$ 110,781

Depreciation expense totaled \$23,441 for the year ending June 30, 2018.

NOTE D – LINE OF CREDIT

The Organization has a line a credit bearing interest at the Prime Rate (an effective rate of 5.00% at June 30, 2018) which matures in October 2019. Maximum borrowings under this line of credit are \$150,000. At June 30, 2018, there were no outstanding borrowings under this line of credit. The line of credit is collateralized by certain assets of the Organization.

NOTE E – NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions during the year ended June 30, 2018 by incurring expenses satisfying the restricted purposes specified by donors as follows:

Capital campaign for office move	\$	538,885
Program expenses		82,094
		\$ 620,979

LITERACY ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE F – OPERATING LEASES

During 2017, the Organization signed a lease termination agreement with its previous landlord in consideration for a monetary payout, of which approximately \$230,000 was received in 2018.

The Organization entered into a new office space lease agreement that began on July 1, 2017. The office space lease is for a 7-year period, expiring on June 30, 2024. In addition to the office space lease, the Organization leased additional office space under separate agreements which expired in 2018. Approximate future payments on the office space lease agreement for the years ending June 30 are as follows:

2019	\$ 284,000
2020	292,000
2021	301,000
2022	310,000
2023	319,000
Thereafter	<u>329,000</u>
	<u>\$ 1,835,000</u>

Rent expense under the aforementioned operating leases for the year ended June 30, 2018 was approximately \$357,000.

NOTE G – COMMUNITY FOUNDATION FOR GREATER ATLANTA RESTRICTED FUNDS

The Community Foundation for Greater Atlanta (the “Foundation”), as of June 30, 2018, has a restricted fund with the Organization as the designated beneficiary for the use of the funds in the amount of approximately \$318,000. 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 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 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.

LITERACY ACTION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE G – COMMUNITY FOUNDATION FOR GREATER ATLANTA RESTRICTED FUNDS
(Continued)

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 year ended June 30, 2018, \$15,150 was received from the Foundation and was recorded in contributions in the accompanying statements of activities and changes in net assets.

NOTE H – PRIOR PERIOD ADJUSTMENTS

During 2018, management identified a series of accounting matters that led to required corrections of previously issued financial statements. The table below summarizes the effect of the corrections on the June 30, 2017 statement of financial position. The net effect of the corrections has increased net assets at June 30, 2017 by \$8,709. The effect of these errors on the statements of activities and changes in net assets and cash flows for the year ended June 30, 2017 was unable to be determined.

	As Previously Stated	Restated	Change
Assets:			
Grants receivable	\$ 321,053	\$ 258,315	\$ (62,738)
Pledges receivable	5,769	2,892	(2,877)
Prepaid expenses	147,482	141,888	(5,594)
Property and equipment, net	142,958	83,869	(59,089)
Other assets	-	33,519	33,519
			<u>\$ (96,779)</u>
Liabilities and Net Assets:			
Accounts payable and accrued expenses	\$ 22,044	\$ 40,377	\$ 18,333
Deferred rent	138,821	-	(138,821)
Unearned revenue	-	15,000	15,000
Unrestricted net assets	955,924	1,193,409	237,485
Temporarily net assets	784,876	556,100	(228,776)
			<u>\$ (96,779)</u>