

THE LITERACY ALLIANCE, INC.

FORT WAYNE, INDIANA

Financial Statements

as of August 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Literacy Alliance, Inc.
Fort Wayne, Indiana

We have audited the accompanying financial statements of The Literacy Alliance, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities and 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.

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 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 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 The Literacy Alliance, Inc. as of August 31, 2019 and 2018, 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.

Leonard J. Andorfer & Co., LLP

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants
Fort Wayne, Indiana

October 29, 2019

THE LITERACY ALLIANCE, INC.

Statements of Financial Position

| ASSETS | <u>August 31 2019</u> | <u>August 31 2018</u> |
|--|------------------------------|------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 274,885 | \$ 250,453 |
| Grants and accounts receivable | 42,870 | 38,500 |
| Prepaid expenses | 4,400 | 1,550 |
| Accrued interest receivable | 2,886 | 1,376 |
| Total Current Assets | <u>325,041</u> | <u>291,879</u> |
| INVESTMENT - COMMUNITY FOUNDATION OF GREATER FORT WAYNE | | |
| | 69,130 | 70,200 |
| PROPERTY AND EQUIPMENT | | |
| Equipment | 172,857 | 163,188 |
| Leasehold improvements | 57,634 | 57,634 |
| Less accumulated depreciation | (152,563) | (130,365) |
| Total Property and Equipment (Net) | <u>77,928</u> | <u>90,457</u> |
| OTHER ASSETS | | |
| Deposits | <u>2,650</u> | <u>2,650</u> |
| TOTAL ASSETS | <u><u>\$ 474,749</u></u> | <u><u>\$ 455,186</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 6,525 | \$ 7,527 |
| Current portion of leasehold obligation | 5,113 | 4,865 |
| Deferred revenue | 36,140 | 24,962 |
| Total Current Liabilities | <u>47,778</u> | <u>37,354</u> |
| NONCURRENT LIABILITIES | | |
| Noncurrent portion of leasehold obligation | 33,123 | 38,936 |
| NET ASSETS | | |
| Without donor restrictions | 332,321 | 327,867 |
| With donor restrictions | 61,527 | 51,029 |
| Total Net Assets | <u>393,848</u> | <u>378,896</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 474,749</u></u> | <u><u>\$ 455,186</u></u> |

The Notes to Financial Statements
are an integral part of the statements.

THE LITERACY ALLIANCE, INC.

**Statements of Activities and Net Assets
For the Year Ended August 31, 2019
(With Comparative Totals for the Year Ended August 31, 2018)**

| | Without Donor Restrictions | With Donor Restrictions | 2019 Total | 2018 Total |
|--|-------------------------------|----------------------------|-------------------|-------------------|
| SUPPORT AND REVENUE | | | | |
| Support | | | | |
| Government grants | \$ 207,957 | \$ | 207,957 | \$ 199,833 |
| Foundation grants | 277,560 | 95,750 | 373,310 | 379,867 |
| Business contributions | 14,674 | | 14,674 | 19,269 |
| Individual contributions | 41,764 | | 41,764 | 33,792 |
| Fund raising (net of direct benefit to donors of \$9,800 and \$10,500, respectively) | 26,082 | | 26,082 | 41,440 |
| United Way | 25,417 | | 25,417 | 30,500 |
| In-kind support | 16,260 | | 16,260 | 12,440 |
| Revenue | | | | |
| Investment income | 6,383 | | 6,383 | 5,727 |
| Unrealized investment gain (loss) | (3,369) | | (3,369) | 3,765 |
| Program service fees | 13,751 | | 13,751 | 12,000 |
| Net assets released from restrictions | | | | |
| Restrictions satisfied by payments | (85,252) | (85,252) | - | - |
| Total Support and Revenue and Net Assets Released from Restrictions | <u>711,731</u> | <u>10,498</u> | <u>722,229</u> | <u>738,633</u> |
| EXPENSES | | | | |
| Program services | | | | |
| Supporting services | 595,103 | | 595,103 | 609,727 |
| Management and general | 62,547 | | 62,547 | 67,970 |
| Fund raising | 49,627 | | 49,627 | 65,516 |
| Total Expenses | <u>707,277</u> | <u>0</u> | <u>707,277</u> | <u>743,213</u> |
| CHANGE IN NET ASSETS | | | | |
| NET ASSETS - BEGINNING OF YEAR | 4,454 | 10,498 | 14,952 | (4,580) |
| | 327,867 | 51,029 | 378,896 | 383,476 |
| NET ASSETS - END OF YEAR | <u>\$ 332,321</u> | <u>\$ 61,527</u> | <u>\$ 393,848</u> | <u>\$ 378,896</u> |

The Notes to Financial Statements are an integral part of the statements.

THE LITERACY ALLIANCE, INC.

**Statements of Activities and Net Assets
For the Year Ended August 31, 2018**

| | Without Donor Restrictions | With Donor Restrictions | 2018 Total |
|--|-------------------------------|----------------------------|---------------|
| SUPPORT AND REVENUE | | | |
| Support | | | |
| Government grants | \$ 199,833 | | \$ 199,833 |
| Foundation grants | 289,867 | 90,000 | 379,867 |
| Business contributions | 19,269 | | 19,269 |
| Individual contributions | 25,437 | 8,355 | 33,792 |
| Fund raising (net of direct benefit to donors of \$10,500) | 41,440 | | 41,440 |
| United Way | 30,500 | | 30,500 |
| In-kind support | 12,440 | | 12,440 |
| Revenue | | | |
| Investment income | 5,727 | | 5,727 |
| Unrealized investment gain | 3,765 | | 3,765 |
| Program service fees | 12,000 | | 12,000 |
| Net assets released from restrictions | | | |
| Restrictions satisfied by payments | 107,239 | (107,239) | - |
| Total Support and Revenue and Net Assets | 747,517 | (8,884) | 738,633 |
| Released from Restrictions | | | |
| EXPENSES | | | |
| Program services | 609,727 | | 609,727 |
| Supporting services | | | |
| Management and general | 67,970 | | 67,970 |
| Fund raising | 65,516 | | 65,516 |
| Total Expenses | 743,213 | - | 743,213 |
| CHANGE IN NET ASSETS | 4,304 | (8,884) | (4,580) |
| NET ASSETS - BEGINNING OF YEAR | 323,563 | 59,913 | 383,476 |
| NET ASSETS - END OF YEAR | \$ 327,867 | \$ 51,029 | \$ 378,896 |

The Notes to Financial Statements
are an integral part of the statements.

THE LITERACY ALLIANCE, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2019
(With Comparative Totals for the Year Ended August 31, 2018)

| | Program | | Supporting Services | | 2019 | 2018 |
|--|------------|-------------|------------------------|--------------|----------------|----------------|
| | Adult | Instruction | Management and General | Fund Raising | Total Expenses | Total Expenses |
| Salaries | \$ 352,040 | \$ 20,873 | | | \$ 412,378 | \$ 426,314 |
| Payroll taxes | 28,143 | 1,751 | | | 33,247 | 35,137 |
| Staff development | 5,820 | 500 | | | 6,653 | 7,112 |
| Workmans comp/medical insurance | 1,506 | 301 | | | 2,008 | 2,411 |
| Total Employee Expenses | 387,509 | 23,425 | 43,352 | 23,425 | 454,286 | 470,974 |
| Instruction | 24,067 | | | | 24,067 | 300 |
| Resource material | 2,963 | 96 | 64 | 96 | 3,123 | 20,181 |
| Advertising and promotion | 3,356 | 447 | 447 | 671 | 4,474 | 9,045 |
| Professional services | 61,593 | 7,910 | 7,910 | 12,251 | 81,754 | 73,162 |
| Supplies | 4,827 | 638 | 638 | 957 | 6,422 | 8,268 |
| Telephone | 2,438 | 325 | 325 | 487 | 3,250 | 4,226 |
| Postage and shipping | 1,712 | 228 | 228 | 342 | 2,282 | 1,434 |
| Insurance | 1,039 | 139 | 139 | 208 | 1,386 | 1,385 |
| Occupancy | 47,792 | 4,133 | 4,133 | 6,200 | 58,125 | 54,873 |
| Equipment rental and maintenance | 15,407 | 1,960 | 1,960 | 2,939 | 20,306 | 25,528 |
| Travel | 259 | 38 | 38 | 51 | 348 | 1,409 |
| Printing and publications | 6,799 | 777 | 777 | 1,165 | 8,741 | 14,282 |
| Dues and subscriptions | 2,420 | 241 | 241 | 362 | 3,023 | 3,891 |
| Student expense | 14,549 | | | | 14,549 | 26,451 |
| Child care | | | | | - | 264 |
| Special events | 1,725 | 75 | 75 | 6,943 | 8,743 | 14,785 |
| Total Before Depreciation | 578,455 | 60,327 | 60,327 | 56,097 | 694,879 | 730,458 |
| Depreciation | 16,648 | 2,220 | 2,220 | 3,330 | 22,198 | 23,255 |
| Total Expenses by Function | 595,103 | 62,547 | 62,547 | 59,427 | 717,077 | 753,713 |
| Less expenses included with support on the statement of activities | | | | (9,800) | (9,800) | (10,500) |
| Total Expenses | \$ 595,103 | \$ 62,547 | \$ 62,547 | \$ 49,627 | \$ 707,277 | \$ 743,213 |

The Notes to Financial Statements are an integral part of the statements.

THE LITERACY ALLIANCE, INC.
Statement of Functional Expenses
For the Year Ended August 31, 2018

| | Program Services | Supporting Services | | Total |
|---|----------------------|---------------------------|-----------------|------------|
| | Adult Instruction | Management and General | Fund Raising | Expenses |
| Salaries | \$ 357,455 | \$ 45,308 | \$ 23,551 | \$ 426,314 |
| Payroll taxes | 29,569 | 3,495 | 2,073 | 35,137 |
| Staff development | 6,880 | 81 | 151 | 7,112 |
| Medical insurance | 1,808 | 241 | 362 | 2,411 |
| Total Employee Expenses | 395,712 | 49,125 | 26,137 | 470,974 |
| Instruction | 300 | | | 300 |
| Resource material | 20,181 | | | 20,181 |
| Advertising and promotion | 4,994 | 666 | 3,385 | 9,045 |
| Professional services | 50,671 | 6,478 | 16,013 | 73,162 |
| Supplies | 6,224 | 819 | 1,225 | 8,268 |
| Telephone | 3,169 | 423 | 634 | 4,226 |
| Postage and shipping | 907 | 121 | 406 | 1,434 |
| Insurance | 1,039 | 138 | 208 | 1,385 |
| Occupancy | 44,383 | 4,196 | 6,294 | 54,873 |
| Equipment rental and maintenance | 19,295 | 2,493 | 3,740 | 25,528 |
| Travel | 1,234 | 70 | 105 | 1,409 |
| Printing and publications | 12,653 | 703 | 926 | 14,282 |
| Dues and subscriptions | 2,981 | 340 | 570 | 3,891 |
| Student expense | 26,451 | | | 26,451 |
| Child care | 264 | | | 264 |
| Special events | 1,828 | 72 | 12,885 | 14,785 |
| Total Before Depreciation | 592,286 | 65,644 | 72,528 | 730,458 |
| Depreciation | 17,441 | 2,326 | 3,488 | 23,255 |
| Total Expenses by Function | 609,727 | 67,970 | 76,016 | 753,713 |
| Less expenses included with support on the statement of activities | | | (10,500) | (10,500) |
| Total Expenses | \$ 609,727 | \$ 67,970 | \$ 65,516 | \$ 743,213 |

The Notes to Financial Statements
are an integral part of the statements.

THE LITERACY ALLIANCE, INC.

Statements of Cash Flows

| | Year Ended August 31 | |
|--|--------------------------|--------------------------|
| | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 14,952 | (\$ 4,580) |
| Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities | | |
| Depreciation | 22,198 | 23,255 |
| Unrealized investment (gain) loss | 3,369 | (3,765) |
| Decrease (increase) in grants and accounts receivable | (4,370) | 2,925 |
| Decrease (increase) in prepaid expenses | (2,850) | 3,463 |
| Increase in accrued interest receivable | (1,510) | (561) |
| Decrease in accounts payable and accrued expenses | (1,002) | (315) |
| Increase (decrease) in deferred revenue | <u>11,178</u> | <u>(18,130)</u> |
| Net Cash Provided by Operating Activities | 41,965 | 2,292 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (9,669) | - |
| Increase in investments | <u>(2,299)</u> | <u>(3,152)</u> |
| Net Cash Used For Investing Activities | (11,968) | (3,152) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on leasehold obligation | <u>(5,565)</u> | <u>(5,818)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 24,432 | (6,678) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>250,453</u> | <u>257,131</u> |
| CASH AND CASH EQUIVALENTS- END OF YEAR | <u><u>\$ 274,885</u></u> | <u><u>\$ 250,453</u></u> |

The Notes to Financial Statements
are an integral part of the statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – The Literacy Alliance’s mission is “to end illiteracy by teaching adults through Learning Centers, literacy programs and tutoring services that empower individuals to succeed at work, at home and in the community.” In support of its mission, the organization provides instruction for adults through community-based GED (general education development) / HSE (high school equivalent) learning centers, pre-GED/HSE classes held in internet-connected computer labs, small groups working on pre-reading skills, and English as a New Language class. The Organization is a collaborator with East Allen County Schools to provide GED/HSE and English as a New Language instruction. Volunteers are an essential part of the instruction team in all program areas. The Literacy Alliance also places a family library in each new Habitat for Humanity home at the time of dedication.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation – Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of The Literacy Alliance, Inc. and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net Assets With Donor Restrictions – These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

Promises to Give - Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years’ experience and management’s analysis of specific promises made.

Contributions - The Organization has adopted FASB ASC 958-605-05. In accordance with FASB ASC 958-605-05, contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Contributed Services and Gifts in Kind - During the years ended August 31, 2019 and 2018, the value of contributed services meeting the requirements for recognition in the financial statements in accordance with FASB ASC 958-605-05 was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization's program services. The Organization receives more than 3,400 volunteer hours per year.

The Organization also receives the use of facilities used in its programs. The value of the donated facilities amounted to \$16,260 and \$12,440 for the years ended August 31, 2019 and 2018, respectively.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of twelve months or less to be cash equivalents.

Property and Equipment - Donations of property 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 assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Equipment is depreciated using the straight-line method over a period of three to seven years. Leasehold improvements are being depreciated on a straight-line basis over the life of the lease which is ten years.

Functional Expenses - The Literacy Alliance, Inc. allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes - The Literacy Alliance, Inc. is a nonprofit Organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the 50% charitable contribution limitation. The organization has adopted FASB ASC 740-10-25 and determined no material unrecognized tax benefits or liabilities exist as of August 31, 2019. The adoption of FASB ASC 740-10-25 did not impact the organization's financial position or results of operations. If applicable, the Organization will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of August 31, 2019, the Organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Organization does not anticipate any significant changes to unrecognized income tax benefits over the next year. The Organization is generally no longer subject to examination by federal and state agencies for years ended before August 31, 2016.

Advertising Costs - Advertising and promotional programs are charged to expense during the period in which they are incurred.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

Compensated Absences - The Organization's employee base is made up of full-time and part-time employees. No liability for compensated absences has been recorded in the financial statements. Any liability that may exist is deemed immaterial.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Revenue - The Organization has recorded deferred revenue in connection with a fund-raising event that will take place in a subsequent year. Deferred revenue amounted to \$36,140 and \$24,962 as of August 31, 2019 and 2018, respectively.

Recent Accounting Pronouncements - In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The Literacy Alliance, Inc. has applied this guidance retrospectively to all periods presented.

In February 2016, the FASB issued ASU 2016-2-Leases. The standard will increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The standard is effective for the organization beginning September 1, 2021 and is currently being evaluated to determine the impact on the financial statements.

NOTE 2 - Grants and Accounts Receivable

The Literacy Alliance, Inc. incurs expenses and then submits requests for reimbursement by third-party grantors. The reimbursement requests are reviewed by the grantor, taking into consideration the purpose of the expenditures, the amount of the original grant and the provisions set forth. Grants receivable under these terms amounted to \$37,970 and \$34,242 as of August 31, 2019 and 2018, respectively. In addition, the Organization had miscellaneous accounts receivable of \$4,900 and \$4,258 as of August 31, 2019 and 2018, respectively. All grants and accounts receivable are considered by the Organization to be fully collectible.

NOTE 3 - Off-Balance Sheet Risk

The Organization maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At August 31, 2019 and 2018, the Organization had no uninsured cash balances.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - Concentrations

Grants from a single donor amounted to \$206,502 and \$228,851 for the years ended August 31, 2019 and 2018, respectively. This amounted to 28.59% and 29.93% of total support and revenue for the years ended August 31, 2019 and 2018, respectively. Were it to occur, a significant reduction in this funding may have a major effect on the operations of the Organization.

NOTE 5 – Line of Credit

The Organization has obtained a short-term line of credit from Star Financial Bank in the amount of \$75,000. The note calls for interest at a rate of prime plus .75%, is secured by substantially all of the Organization's assets and is due on January 1, 2020. There was no balance due on this line of credit as of August 31, 2019 or 2018.

NOTE 6 - Leases

On November 1, 2015, the organization entered into a lease commencing March 1, 2016 for a period of ten years. The lease is for office space at a rate of \$2,089 per month for the first twelve months with increases on an annual basis tied to the increase in the consumer price index. Future minimum lease payments over the next five years of the lease are estimated as follows:

| <u>Year</u> | <u>Amount</u> |
|-----------------|---------------|
| August 31, 2020 | \$ 26,652 |
| August 31, 2021 | 26,844 |
| August 31, 2022 | 27,048 |
| August 31, 2023 | 27,252 |
| August 31, 2024 | 27,450 |

NOTE 7 – Leasehold Obligation

In connection with the lease executed in Note 6, the Organization agreed to reimburse the landlord for leasehold improvements made to the leased facility. The total amount of the improvements was \$57,634 and the amount is being repaid at \$557/month including interest at a rate of 3% over a ten year period. The remaining balance amounted to \$38,236 and \$43,801 as of August 31, 2019 and 2018, respectively. Principal payments over the next five years are as follows:

| <u>Year</u> | <u>Amount</u> |
|-----------------|---------------|
| August 31, 2020 | \$ 5,113 |
| August 31, 2021 | 5,756 |
| August 31, 2022 | 5,932 |
| August 31, 2023 | 6,112 |
| August 31, 2024 | 6,298 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions result from non-reimbursement type grants in which the specifically stated grant terms do not coincide with the organization’s fiscal year.

A reconciliation of net assets with donor restrictions follows:

| | <u>Balance</u> <u>8/31/2018</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>8/31/2019</u> |
|-------------------------------------|------------------------------------|------------------|-------------------|------------------------------------|
| Operating grant - future periods | \$ 20,000 | \$ 30,000 | \$ 30,000 | \$ 20,000 |
| Operating grant - future periods | 11,667 | 35,000 | 35,000 | 11,667 |
| Organizational development | 5,837 | 10,000 | 6,502 | 9,335 |
| Restricted donations - Scholarships | 1,525 | 250 | | 1,775 |
| Student supplies - adult education | - | 7,500 | | 7,500 |
| H.S.E. operations | 12,000 | 13,000 | 13,750 | 11,250 |
| | <u>\$ 51,029</u> | <u>\$ 95,750</u> | <u>\$ 85,252</u> | <u>\$ 61,527</u> |

NOTE 9 - Investment - Community Foundation of Greater Fort Wayne

During the fiscal year ended August 31, 2006, the Board of Directors made a contribution of \$50,000 to the Community Foundation of Greater Fort Wayne. The Foundation has final discretion on the investment and reinvestment of the assets which are held in a pooled fund. Proportional investment earnings less customary and usual fees will either be distributed to The Literacy Alliance, Inc. or added to the fund principal according to the terms of the agreement. As of August 31, 2019 and 2018, the balance in the Foundation amounted to \$69,130 and \$70,200, respectively.

Additionally, the Community Foundation of Greater Fort Wayne holds investment assets with a value of \$28,507 and \$28,490 as of August 31, 2019, and 2018, respectively, for the benefit of the Organization for which they have retained variance power. These investments are not recorded as assets of the Organization.

Net investment income includes interest on deposit accounts and consisted of the following:

| | Year ended August 31 | |
|----------------------------|----------------------|-----------------|
| | <u>2019</u> | <u>2018</u> |
| Interest income | \$ 6,714 | \$ 5,162 |
| Realized gains | 2 | 884 |
| Unrealized gains (loss) | (3,369) | 3,765 |
| Investment management fees | (333) | (319) |
| Total | <u>\$ 3,014</u> | <u>\$ 9,492</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – Retirement Plan

The Organization has adopted an Internal Revenue Code 403(b) retirement savings plan for substantially all employees. All contributions to the plan are made by the employees through salary deferrals. The plan does not provide for contributions from The Literacy Alliance.

NOTE 11 – Fair Value of Financial Instruments

FASB ASC 820-10-50-1 requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by The Literacy Alliance, Inc. impacted by this pronouncement include the investments held at market value.

FASB ASC 820-10-50-1 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of input described below:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair value of financial instruments as of August 31, 2019 is as follows:

| | Quoted market prices for identical assets Level 1 | Significant other observable inputs Level 2 | Significant unobservable inputs Level 3 |
|---|---|---|--|
| Community Foundation of Greater Fort Wayne | <u>\$</u> | <u>\$</u> | <u>\$ 69,130</u> |

Fair value of financial instruments as of August 31, 2018 is as follows:

| | Quoted market prices for identical assets Level 1 | Significant other observable inputs Level 2 | Significant unobservable inputs Level 3 |
|---|---|---|--|
| Community Foundation of Greater Fort Wayne | <u>\$</u> | <u>\$</u> | <u>\$ 70,200</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 – Fair Value of Financial Instruments (Continued)

The table below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended August 31, 2019 and 2018:

| | 2019 Unobservable Inputs (Level 3) | 2018 Unobservable Inputs (Level 3) |
|---|--|--|
| | <u>\$</u> | <u>\$</u> |
| Beginning Balance - September 1 | 70,200 | 63,283 |
| Total gains or losses (realized/unrealized) included in earnings: | | |
| Interest and dividend income on securities | 2,630 | 2,587 |
| Unrealized gains (loss) | (3,369) | 3,765 |
| Realized gain on sale of securities | 2 | 884 |
| Investment fees | (333) | (319) |
| Transfers out | - | - |
| Ending Balance - August 31 | <u>\$ 69,130</u> | <u>\$ 70,200</u> |

NOTE 12 – Liquidity and Availability of Financial Assets

The following reflects the financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the board-approved appropriation from the endowment fund for the following year as well as donor-restricted amounts that are available for expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the board approves that action.

| | 2019 | 2018 |
|--|-------------------|-------------------|
| | <u>\$</u> | <u>\$</u> |
| Cash and cash equivalents | 274,885 | 250,453 |
| Accounts and grants receivable, net, collected in less than one year | 42,870 | 38,500 |
| Total financial assets, excluding noncurrent receivables | 317,755 | 288,953 |
| Contractual or donor-imposed restrictions: | | |
| Other donor restrictions | (61,527) | (51,029) |
| Add back: amounts available for donor-specified expenditures in following year | 42,917 | 43,667 |
| Financial Assets Available to Meet Cash Needs for Expenditures Within One Year | <u>\$ 299,145</u> | <u>\$ 281,591</u> |

NOTE 13 – Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 29, 2019, the date the financial statements were available to be issued.