

**THE LITERACY ALLIANCE, INC.**

**FORT WAYNE, INDIANA**

**Financial Statements**

**as of August 31, 2023 and 2022**

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

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, 2023 and 2022, 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.

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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Literacy Alliance, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Literacy Alliance, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Literacy Alliance, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Literacy Alliance, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Leonard J. Andorfer & Co., LLP*

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

November 2, 2023

**THE LITERACY ALLIANCE, INC.**

**Statements of Financial Position**

<b>ASSETS</b>	August 31 2023	August 31 2022
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 234,022	\$ 380,299
Grants and accounts receivable	63,744	60,465
Pledges receivable - current	36,000	200,000
Prepaid expenses	14,409	7,705
Accrued interest receivable	2,277	318
Total Current Assets	350,452	648,787
<b>INVESTMENT - COMMUNITY FOUNDATION</b>	96,059	90,050
<b>PROPERTY AND EQUIPMENT</b>		
Equipment	188,411	170,911
Leasehold improvements	57,634	57,634
Right-to-use - building (net)	100,197	-
Less accumulated depreciation	( 176,788 )	( 156,725 )
Total Property and Equipment (Net)	169,454	71,820
<b>OTHER ASSETS</b>		
Deposits	2,650	2,650
Pledges receivable - non current (net)	14,599	28,426
Total Other Assets	17,249	31,076
<b>TOTAL ASSETS</b>	\$ 633,214	\$ 841,733
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 38,061	\$ 25,559
Current portion of noncurrent liabilities	44,307	5,434
Deferred revenue	28,015	28,036
Total Current Liabilities	110,383	59,029
<b>NONCURRENT LIABILITIES</b>		
Leasehold improvement obligation	15,549	20,983
Operating lease obligation	101,235	-
Less: current maturities	( 44,307 )	( 5,434 )
Total Noncurrent Liabilities	72,477	15,549
<b>NET ASSETS</b>		
Without donor restrictions	346,075	515,818
With donor restrictions	104,279	251,337
Total Net Assets	450,354	767,155
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 633,214	\$ 841,733

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, 2023**

**(With Comparative Totals for the Year Ended August 31, 2022)**

<b>SUPPORT AND REVENUE</b>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2023 Total</u>	<u>2022 Total</u>
<b>Support</b>				
Government grants	\$ 246,925	\$	\$ 246,925	\$ 212,615
Foundation grants	205,918	101,000	306,918	264,236
Business contributions	44,953		44,953	145,736
Individual contributions	59,336	1,900	61,236	65,627
Fund raising (net of direct benefit to donors of \$32,146 and \$10,010 for 2023 and 2022)	31,888		31,888	50,606
In-kind support	57,951		57,951	20,898
<b>Revenue</b>				
Program service fees	70,245		70,245	-
Investment income	7,596		7,596	3,345
Unrealized investment gain (loss)	2,441		2,441	( 11,044 )
Other revenue	766		766	-
<b>Net assets released from restrictions</b>				
Restrictions satisfied by payments	<u>249,958</u>	( <u>249,958</u> )	<u>-</u>	<u>-</u>
Total Support and Revenue and Net Assets Released from Restrictions	977,977	( 147,058 )	830,919	752,019
<b>EXPENSES</b>				
<b>Program services</b>	935,358		935,358	759,182
<b>Supporting services</b>				
Management and general	97,203		97,203	94,771
Fund raising	115,159		115,159	121,227
Total Expenses	<u>1,147,720</u>	<u>-</u>	<u>1,147,720</u>	<u>975,180</u>
<b>CHANGE IN NET ASSETS</b>	( 169,743 )	( 147,058 )	( 316,801 )	( 223,161 )
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>515,818</u>	<u>251,337</u>	<u>767,155</u>	<u>990,316</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 346,075</u>	<u>\$ 104,279</u>	<u>\$ 450,354</u>	<u>\$ 767,155</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, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Total</u>
<b>SUPPORT AND REVENUE</b>			
<b>Support</b>			
Government grants	\$ 212,615	\$	\$ 212,615
Foundation grants	174,236	90,000	264,236
Business contributions	145,736		145,736
Individual contributions	65,377	250	65,627
Fund raising (net of direct benefit to donors of \$10,010)	50,606		50,606
In-kind support	20,898		20,898
<b>Revenue</b>			
Investment income	3,345		3,345
Unrealized investment loss	( 11,044 )		( 11,044 )
<b>Net assets released from restrictions</b>			
Restrictions satisfied by payments	295,109	( 295,109 )	-
Total Support and Revenue and Net Assets Released from Restrictions	956,878	( 204,859 )	752,019
 <b>EXPENSES</b>			
<b>Program services</b>	759,182		759,182
<b>Supporting services</b>			
Management and general	94,771		94,771
Fund raising	121,227		121,227
Total Expenses	<u>975,180</u>	<u>-</u>	<u>975,180</u>
 <b>CHANGE IN NET ASSETS</b>	 ( 18,302 )	 ( 204,859 )	 ( 223,161 )
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>534,120</u>	<u>456,196</u>	<u>990,316</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u>\$ 515,818</u>	 <u>\$ 251,337</u>	 <u>\$ 767,155</u>

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, 2023**  
**(With Comparative Totals for the Year Ended August 31, 2022)**

	Program Services	Supporting Services		2023 Total Expenses	2022 Total Expenses
		Management and General	Fund Raising		
Salaries	\$ 581,931	\$ 71,248	\$ 67,145	\$ 720,324	\$ 597,469
Payroll taxes	46,743	4,543	5,010	56,296	46,638
Employee benefits	31,192	3,380	3,813	38,385	37,800
Total Employee Expenses	<u>659,866</u>	<u>79,171</u>	<u>75,968</u>	<u>815,005</u>	<u>681,907</u>
Resource material	20,713			20,713	20,326
Advertising and promotion	25,758	1,167	2,375	29,300	7,971
Professional services	38,500	6,416	4,486	49,402	39,758
Staff/board/donor development	14,980	1,229	1,524	17,733	24,137
Supplies	10,392	2,310	2,011	14,713	17,465
Telephone	4,794	282	564	5,640	5,032
Postage and shipping	1,702	100	727	2,529	3,437
Insurance	2,782	197	294	3,273	4,943
Occupancy	68,901	3,182	5,169	77,252	74,999
Equipment rental and maintenance	19,740	1,276	2,153	23,169	19,244
Travel	926	12		938	448
Printing and publications	8,242	481	1,004	9,727	9,974
Dues and subscriptions	3,996	100	198	4,294	2,707
Student expense	37,237		1,340	38,577	15,375
Special events	24		47,515	47,539	41,270
Total Before Depreciation	<u>918,553</u>	<u>95,923</u>	<u>145,328</u>	<u>1,159,804</u>	<u>968,993</u>
Depreciation	<u>16,805</u>	<u>1,280</u>	<u>1,977</u>	<u>20,062</u>	<u>16,197</u>
Total Expenses by Function	<u>935,358</u>	<u>97,203</u>	<u>147,305</u>	<u>1,179,866</u>	<u>985,190</u>
Less expenses included with support on the statement of activities			( 32,146 )	( 32,146 )	( 10,010 )
Total Expenses	<u>\$ 935,358</u>	<u>\$ 97,203</u>	<u>\$ 115,159</u>	<u>\$ 1,147,720</u>	<u>\$ 975,180</u>

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, 2022**

	Program Services	Supporting Services		Total Expenses
		Management and General	Fund Raising	
Salaries	\$ 472,819	\$ 70,541	\$ 54,109	\$ 597,469
Payroll taxes	36,891	5,543	4,204	46,638
Employee benefits	30,670	3,819	3,311	37,800
Total Employee Expenses	540,380	79,903	61,624	681,907
Resource material	20,326			20,326
Advertising and promotion	6,546	76	1,349	7,971
Professional services	31,617	4,500	3,641	39,758
Staff/board/donor development	18,665	1,796	3,676	24,137
Supplies	13,490	1,154	2,821	17,465
Telephone	4,244	268	520	5,032
Postage and shipping	1,890	83	1,464	3,437
Insurance	4,379	188	376	4,943
Occupancy	65,051	3,403	6,545	74,999
Equipment rental and maintenance	16,091	1,132	2,021	19,244
Travel	440	6	2	448
Printing and publications	6,234	387	3,353	9,974
Dues and subscriptions	2,306	255	146	2,707
Student expense	15,375			15,375
Special events			41,270	41,270
Total Before Depreciation	747,034	93,151	128,808	968,993
Depreciation	12,148	1,620	2,429	16,197
Total Expenses by Function	759,182	94,771	131,237	985,190
Less expenses included with support on the statement of activities			( 10,010 )	( 10,010 )
Total Expenses	\$ 759,182	\$ 94,771	\$ 121,227	\$ 975,180

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

**THE LITERACY ALLIANCE, INC.**

**Statements of Cash Flows**

	Year Ended August 31	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	( \$ 316,801 )	( \$ 223,161 )
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities</b>		
Depreciation	20,063	16,197
Amortization of operating lease	35,964	-
Unrealized investment (gain) loss	( 2,441 )	11,044
Noncash gifts received	( 17,500 )	-
Change in discount on pledges receivable	( 1,173 )	( 3,377 )
Increase in grants and accounts receivable	( 3,279 )	( 2,749 )
Decrease in pledges receivable	179,000	187,500
Decrease (increase) in prepaid expenses	( 6,704 )	11,554
Decrease (increase) in accrued interest receivable	( 1,959 )	1,955
Increase in accounts payable and accrued expenses	12,502	10,185
Increase (decrease) in deferred revenue	( 21 )	11,036
 Net Cash Provided by (Used For) Operating Activities	 ( 102,349 )	 20,184
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	-	( 37,063 )
Increase in investments	( 3,568 )	( 5,067 )
 Net Cash Used For Investing Activities	 ( 3,568 )	 ( 42,130 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on operating lease obligation	( 34,926 )	-
Payments on leasehold improvement obligation	( 5,434 )	( 6,122 )
 Net Cash Used For Financing Activities	 ( 40,360 )	 ( 6,122 )
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	 <b>( 146,277 )</b>	 <b>( 28,068 )</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	 <u>380,299</u>	 <u>408,367</u>
<b>CASH AND CASH EQUIVALENTS- END OF YEAR</b>	 <u>\$ 234,022</u>	 <u>\$ 380,299</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 empower people and strengthen community through education.” Through Project Build, TLA teaches people to read and improve basic academic skills, with a focus on adults testing below the sixth-grade reading level. Through Project Graduate, TLA offers classes that help students prepare for the high school equivalency, or HSE, exam. Through Project Connect, TLA teaches English language skills to adults whose primary language is not English. Through Project Aim, TLA offers career and certification training to local employers. The Organization provides career advising in its HSE classrooms and collaborates with local schools and community organizations to provide on-site instruction and mutual referrals. The Literacy Alliance places a family library in each new Habitat for Humanity home at the time of dedication. Volunteers are an essential part of the instruction team in all program areas. In September 2021, the Organization received, as a contribution, the assets of Project Reads and Project Reads became a program of The Literacy Alliance. Project Reads pairs kindergarten through third grade students who are reading below grade level with trained volunteer tutors. This mentoring program helps these children improve their reading skills and succeed academically.

**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.

**Revenue Recognition** – The Organization recognizes revenue from the following sources:

**Contributions and Grants:** The Organization recognizes support when received or unconditionally promised. Grants and contracts are classified as contributions in instances in which a resource provider is not itself receiving commensurate value for the resources provided. Contributions are considered conditional when the agreement with the resource provider includes a barrier that must be overcome and either a right of return of assets transferred or right of release of a promisor’s obligation to transfer assets. Conditional contributions are not recognized as revenue until the conditions are substantially met.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

#### Revenue Recognition (Continued) –

**Program Service Fees:** The Organization recognizes revenue from direct billed educational services when the related educational services are provided. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization did not receive any cost-reimbursable grants that have not been recognized at August 31, 2023 and 2022, and therefore no amount is recognized in the statement of financial position as a refundable grant for these contracts and grants.

**Special Events and Sponsorships:** The Organization has multiple special events where tickets are purchased for the event and revenue is recognized upon the occurrence of the event. In addition, the Organization will sell sponsorships for the events. When a sponsorship is sold, it contains elements of both an exchange transaction and a contribution. The Organization will recognize the contribution portion once received or unconditionally pledged. The portion related to the exchange transaction is recorded as deferred income until the event occurs at which time it is recognized as revenue.

**In-kind Contributions:** Contributions of professional services are recorded at estimated fair value when received if such services require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not donated. Volunteers contribute amounts of time to the Organization's activities that do not meet recognition criteria, and the value of that time is not reflected in the financial statements. The Organization also receives the use of facilities used in its programs. The value of the donated facilities amounted to \$16,700 and \$17,360 for the years ended August 31, 2023 and 2022, respectively. In addition, the Organization received goods and services amounting to \$41,251 and \$3,538 for the years ended August 31, 2023 and 2022, 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

**Functional Expenses** – The cost of providing the program and other activities has been summarized on a functional basis in the accompanying statements of activities and changes in net assets. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, certain professional services, supplies, information technology, insurance and other expenses, which are allocated on the basis of time and effort.

**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 60% 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, 2023. 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, 2023, 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, 2020.

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

**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 \$28,015 and \$28,036 as of August 31, 2023 and 2022, respectively.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 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 \$63,244 and \$58,965 as of August 31, 2023 and 2022, respectively. In addition, the Organization had miscellaneous accounts receivable of \$500 and \$1,500 as of August 31, 2023 and 2022, 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, 2023 and 2022, the Organization had no uninsured cash balances.

### NOTE 4 - Concentrations

Grants from a single donor amounted to \$185,000 and \$192,500 for the years ended August 31, 2023 and 2022, respectively. This amounted to 20.63% and 19.96% of total support and revenue for the years ended August 31, 2023 and 2022, respectively. Were it to occur, a significant reduction in this funding may have a major effect on the operations of the Organization.

### NOTE 5 – Pledges Receivable

Pledges receivable at August 31, 2023 and 2022 are unconditional promises to give detailed as follows:

	2023	2022
Pledges receivable in less than one year	\$ 36,000	\$ 200,000
Pledges receivable in one to five years	15,000	30,000
Pledges receivable in five to ten years	-	-
	<u>51,000</u>	<u>230,000</u>
Less: present value discount	<u>401</u>	<u>1,574</u>
Net Pledges Receivable	<u>\$ 50,599</u>	<u>\$ 228,426</u>

Pledges have been recorded using a discount rate of 2.75% for the fiscal year ended August 31, 2023 and 2022.

### NOTE 6 – 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 the Organization's assets and is due on March 1, 2024. There was no balance due on this line of credit as of August 31, 2023 or 2022. Interest expense incurred on the line amounted to \$104 and \$0 for the year ended August 31, 2023 and 2022, respectively.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - Leases

On November 1, 2015, the organization entered into a lease commencing March 1, 2016 for a period of ten years. The lease was amended in June 2021 to increase the amount of office space leased effective October 1, 2021. The amended lease is at a rate of \$3,431 per month for the first six months with increases on an annual basis tied to the increase in the consumer price index. The operating lease is reflected in the balance sheet as right-to-use asset and related lease liabilities. Right-to-use assets represent the right to use an underlying asset for the lease term (or longer if management intends to continue) and liabilities represent the obligation to make lease payments arising from the lease agreement.

The adoption of ASC 842 resulted in recording non-cash transactional adjustment to right-to-use assets and operating lease liability of \$136,161. A discount rate of 6.25% was used to calculate the value of the right-to-use asset. The unamortized balance of the right-to-use asset amounted to \$100,197 and the operating lease liability amounted to \$101,235 as of August 31, 2023.

Operating lease expense amounted to \$42,420 and \$40,494 for the years ended August 31, 2023 and 2022, respectively, and has been included in occupancy expense in the statement of functional expenses.

Future minimum lease obligation payments under the expected occupancy of the building are as follows:

Year	Amount
August 31, 2024	\$ 43,266
August 31, 2025	44,130
August 31, 2026	22,284
Total lease payments	109,680
Less: Amounts representing interest	( 8,445 )
Total Future Operating Lease Obligation	\$ 101,235

The Organization applied the new lease guidance in FASB ASC 842 retrospectively as of September 1, 2022 through a cumulative effect adjustment. Under this approach, the Organization must also present disclosures of the minimum required lease payments that were in effect as of August 31, 2022. They are as follows:

Year	Amount
August 31, 2023	\$ 5,434
August 31, 2024	6,298
August 31, 2025	6,489
August 31, 2026	2,762

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 – Leasehold Obligation

In connection with the lease executed in Note 7, 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 \$15,549 and \$20,983 as of August 31, 2023 and 2022, respectively. Principal payments over the remaining terms are as follows:

Year	Amount
August 31, 2024	\$ 6,298
August 31, 2025	6,489
August 31, 2026	2,762

### NOTE 9 – 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 or are specifically for future periods.

A reconciliation of net assets with donor restrictions follows:

	Balance 8/31/2022	Additions	Reductions	Balance 8/31/2023
Operating grants - future periods	\$ 236,716	\$	\$ 206,716	\$ 30,000
Restricted donations - scholarships	8,621		2,288	6,333
H.S.E. operations	6,000		6,000	-
Project Connect	-	51,000	30,000	21,000
Digital literacy	-	50,000	3,146	46,854
Habitat houses	-	1,900	1,808	92
	\$ 251,337	\$ 102,900	\$ 249,958	\$ 104,279

	Balance 8/31/2021	Additions	Reductions	Balance 8/31/2022
Operating grants - future periods	\$ 439,216	\$ 80,000	\$ 282,500	\$ 236,716
Restricted donations - scholarships	9,730	250	1,359	8,621
H.S.E. operations	7,250	10,000	11,250	6,000
	\$ 456,196	\$ 90,250	\$ 295,109	\$ 251,337



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - Investment - Community Foundation

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, 2023 and 2022, the balance in the Foundation amounted to \$96,059 and \$90,050, respectively.

Additionally, the Community Foundation of Greater Fort Wayne holds investment assets with a value of \$84,579 and \$75,282 as of August 31, 2023, and 2022, respectively, for the benefit of the Organization for which they have retained variance power. During the fiscal year ended August 31, 2022, this account balance was increased by combining the assets of Project Reads with those of The Literacy Alliance. These investments are not recorded as assets of the Organization.

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

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 6,696	\$ 1,521
Realized gains	1,362	2,423
Unrealized gains (losses)	2,441 (	11,044 )
Investment management fees	( <u>462</u> )	( <u>599</u> )
Net Investment Income (Loss)	<u>\$ 10,037</u>	<u>( 7,699 )</u>

### NOTE 11 – Retirement Plan

The Organization has adopted an Internal Revenue Code 403(b) retirement savings plan for substantially all employees. Contributions to the plan are made by the employees through salary deferrals and, effective September 1, 2021, an employer match equal to up to 3% of employee wages. Employer contributions amounted to \$15,485 and \$15,268 for the years ended August 31, 2023 and 2022, respectively, and are included in employee benefits in the statement of functional expenses.

### NOTE 12 – 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 12 – Fair Value of Financial Instruments (Continued)

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, 2023 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	\$	\$	\$ 96,059

Fair value of financial instruments as of August 31, 2022 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	\$	\$	\$ 90,050

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, 2023 and 2022:

	2023 Unobservable Inputs (Level 3)	2022 Unobservable Inputs (Level 3)
Beginning Balance - September 1	\$ 90,050	\$ 96,027
Total gains or losses (realized/unrealized) included in earnings:		
Interest and dividend income on securities	2,668	3,243
Unrealized gains (losses)	2,441 (	11,044 )
Realized gain on sale of securities	1,362	2,423
Investment fees	( 462 ) (	599 )
Transfers out	-	-
Ending Balance - August 31	\$ 96,059	\$ 90,050

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 13 – 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.

	2023	2022
Cash and cash equivalents	\$ 234,022	\$ 380,299
Accounts and grants receivable, net, collected in less than one year	63,744	60,465
Pledges receivable, net, collected in less than one year	36,000	200,000
 Total financial assets, excluding noncurrent receivables	 333,766	 640,764
 Contractual or donor-imposed restrictions:		
Other donor restrictions	( 104,279 )	( 251,337 )
Add back: amounts available for donor-specified expenditures in following year	89,279	212,716
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	\$ 318,766	\$ 602,143

### NOTE 14 – Subsequent Events

After the date of these financial statements, the Organization entered into a new lease of office and program space in the same location that it presently operates. The new lease is for a period of ten years at a rate similar to the existing lease.

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 2, 2023, the date the financial statements were available to be issued.