

LITERACY PARTNERS, INC.

***FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

JUNE 30, 2018 AND 2017

LITERACY PARTNERS, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**To the Board of Directors of
Literacy Partners, Inc.
New York, New York**

We have audited the accompanying consolidated financial statements of Literacy Partners, Inc. (the “*Organization*”), which comprise the statement of financial position as of June 30, 2018 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization’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 Organization’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 partners, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**To the Board of Directors of
Literacy Partners, Inc.
New York, New York**

Report on Summarized Comparative Information

We have previously audited Literacy Partners, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Bahen LLP

**Philadelphia, Pennsylvania
February 8, 2019**

LITERACY PARTNERS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018 And 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 1,037,941	\$ 491,231
Investments (<i>Note 3</i>)	5,212,126	5,540,062
Accounts receivable and other assets	6,478	2,364
Contributions receivable	72,775	180,434
Grants receivable	33,746	188,382
Prepaid expenses	54,043	14,996
Inventory	103,814	-
Equipment, net of accumulated depreciation of \$304,991 in 2018 and \$291,136 in 2017	30,218	33,804
Security deposit	<u>63,750</u>	<u>63,750</u>
Total assets	<u>\$ 6,614,891</u>	<u>\$ 6,515,023</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 27,206	\$ 33,201
Deferred Rent (<i>Note 4</i>)	<u>111,704</u>	<u>98,335</u>
Total liabilities	<u>138,910</u>	<u>131,536</u>
NET ASSETS (<i>Note 5</i>)		
Unrestricted		
Operations	1,184,879	898,262
Board designated	<u>-</u>	<u>168,083</u>
Total unrestricted net assets	1,184,879	1,066,345
Temporarily restricted	30,000	56,040
Permanently restricted	<u>5,261,102</u>	<u>5,261,102</u>
Total net assets	<u>6,475,981</u>	<u>6,383,487</u>
Total liabilities and net assets	<u>\$ 6,614,891</u>	<u>\$ 6,515,023</u>

LITERACY PARTNERS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended June 30, 2018 With Summarized Information For 2017

	UNRESTRICTED			Temporarily Restricted	Permanently Restricted	2018	2017
	Operations	Board Designated	Total				
REVENUES							
Public Support							
Foundation grants	\$ 130,000	\$ -	\$ 130,000	\$ 30,000	\$ -	\$ 160,000	\$ 216,550
Corporate contributions	20,000	-	20,000	-	-	20,000	25,325
Individuals	214,870	-	214,870	-	-	214,870	216,352
Bequests	483,000	-	483,000	-	-	483,000	-
Government contracts	977,309	-	977,309	-	-	977,309	787,391
Contributions in-kind	395,581	-	395,581	-	-	395,581	200,916
Total public support	<u>2,220,760</u>	<u>-</u>	<u>2,220,760</u>	<u>30,000</u>	<u>-</u>	<u>2,250,760</u>	<u>1,446,534</u>
Other Revenue							
Fund raising events, net of direct benefit to donors of \$157,566 in 2018 and \$192,103 in 2017	728,919	-	728,919	-	-	728,919	647,739
Investment return designated for current operations (<i>Note 3</i>)	600,000	-	600,000	-	-	600,000	600,000
Other revenue	9,214	-	9,214	-	-	9,214	9,046
Total other revenue	<u>1,338,133</u>	<u>-</u>	<u>1,338,133</u>	<u>-</u>	<u>-</u>	<u>1,338,133</u>	<u>1,256,785</u>
Total public support and other revenue	<u>3,558,893</u>	<u>-</u>	<u>3,558,893</u>	<u>30,000</u>	<u>-</u>	<u>3,588,893</u>	<u>2,703,319</u>
EXPENSES							
Program services	<u>2,193,099</u>	<u>-</u>	<u>2,193,099</u>	<u>-</u>	<u>-</u>	<u>2,193,099</u>	<u>1,800,062</u>
Supporting services							
Management and general	372,450	-	372,450	-	-	372,450	384,362
Fundraising	597,811	-	597,811	-	-	597,811	370,491
Total supporting services	<u>970,261</u>	<u>-</u>	<u>970,261</u>	<u>-</u>	<u>-</u>	<u>970,261</u>	<u>754,853</u>
Total expenses	<u>3,163,360</u>	<u>-</u>	<u>3,163,360</u>	<u>-</u>	<u>-</u>	<u>3,163,360</u>	<u>2,554,915</u>
Excess of revenues over expenses	395,533	-	395,533	30,000	-	425,533	148,404
Other Changes							
Investment return in excess (deficit) of amounts designated for current operations (<i>Note 3</i>)	-	(9,991)	(9,991)	(323,048)	-	(333,039)	20,537
Change in deficit balances of accumulated endowment income (<i>Note 5</i>)	(108,916)	(158,092)	(267,008)	267,008	-	-	-
Change in net assets	286,617	(168,083)	118,534	(26,040)	-	92,494	168,941
Net Assets							
Beginning of year	898,262	168,083	1,066,345	56,040	5,261,102	6,383,487	6,214,546
End of year	<u>\$ 1,184,879</u>	<u>\$ -</u>	<u>\$ 1,184,879</u>	<u>\$ 30,000</u>	<u>\$ 5,261,102</u>	<u>\$ 6,475,981</u>	<u>\$ 6,383,487</u>

See accompanying notes to financial statements.

LITERACY PARTNERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended June 30, 2018 With Summarized Information For 2017

	2018				2017			
	Program Services			Total Program	Support Services			
	Educational Support	Basic Educational Centers	Family Literacy Centers		General And Administrative	Fundraising	Total	Total
Salaries	\$ 364,977	\$ 164,345	\$ 94,247	\$ 623,569	\$ 193,482	\$ 240,538	\$ 1,057,589	\$ 956,420
Payroll taxes and benefits	89,667	40,376	23,154	153,197	47,535	59,095	259,827	249,365
Contributions in-kind								
Instruction and facility	-	172,590	-	172,590	-	-	172,590	127,202
Books	-	118,057	-	118,057	-	-	118,057	73,714
Instructional and testing materials		1,842	116	1,958	48	-	2,006	949
Occupancy	58,976	26,556	15,229	100,761	31,264	38,868	170,893	186,023
Telephone	3,852	1,734	995	6,581	2,042	2,538	11,161	11,158
Printing/postage	1,845	3,811	1,972	7,628	1,728	24,082	33,438	26,567
Office supplies and equipment	7,269	1,687	3,634	12,590	6,208	34,913	53,711	24,139
Travel and conferences	2,444	4,215	5,975	12,634	219	1,982	14,835	7,651
Professional fees	-	-	-	-	40,888	-	40,888	26,895
Fund-raising / special events	-	-	-	-	-	155,001	155,001	141,081
Video production	782,500	-	-	782,500	-	-	782,500	495,750
Insurance	8,615	3,879	2,225	14,719	4,567	5,678	24,964	23,427
Consultants/outside services	29,030	141,246	-	170,276	4,850	21,912	197,038	144,201
Computer expenses	6,921	3,116	1,787	11,824	3,669	4,561	20,054	18,085
Miscellaneous	3,765	40	410	4,215	22,095	8,643	34,953	27,980
Depreciation	-	-	-	-	13,855	-	13,855	14,308
Total Expenses - 2018	<u>\$1,359,861</u>	<u>\$ 683,494</u>	<u>\$ 149,744</u>	<u>\$ 2,193,099</u>	<u>\$ 372,450</u>	<u>\$ 597,811</u>	<u>\$ 3,163,360</u>	
Total Expenses - 2017	<u>\$ 1,088,270</u>	<u>\$ 576,094</u>	<u>\$ 135,698</u>	<u>\$ 1,800,062</u>	<u>\$ 384,362</u>	<u>\$ 370,491</u>	<u>\$ 2,554,915</u>	

LITERACY PARTNERS, INC.

STATEMENT OF CASH FLOWS

June 30, 2018 And 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 92,494	\$ 168,941
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	13,855	14,308
Realized and unrealized gains on investments	(101,162)	(396,421)
(Increase) decrease in current assets		
Accounts receivable and other assets	258,181	(327,934)
Prepaid expenses	(39,047)	(7,701)
Inventory	(103,814)	-
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(5,995)	(1,376)
Deferred rent	<u>13,369</u>	<u>19,221</u>
Net cash provided by (used for) operating activities	<u>127,881</u>	<u>(530,962)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,841,013	610,000
Purchase of investments	(1,411,915)	(234,116)
Purchase of furniture, fixtures and equipment	<u>(10,269)</u>	<u>(3,554)</u>
Net cash provided by investing activities	<u>418,829</u>	<u>372,330</u>
Net increase (decrease) in cash	546,710	(158,632)
CASH		
Beginning of year	<u>491,231</u>	<u>649,863</u>
End of year	<u>\$ 1,037,941</u>	<u>\$ 491,231</u>

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 And 2017

(1) ORGANIZATION

ORGANIZATION

Literacy Partners, Inc. (the “*Organization*”) believes that the ability to read is an essential element of an enriched and fulfilling life. Their high quality, community-based literacy programs in New York City empower adults to reach their full potential as individuals, parents and citizens.

TAX EXEMPT STATUS

The Organization is incorporated as a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local taxes under comparable laws.

Management has reviewed the tax positions for each of the open tax years (2015 – 2017) or expected to be taken in the Organization’s 2018 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCRUAL BASIS OF ACCOUNTING

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and conform to generally accepted accounting principles as applicable to not-for-profit organizations.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

ALLOCATION OF EXPENSES

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

CONCENTRATION OF CREDIT RISK

The Organization occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“*ASC*”) 825, “*Financial Instruments*” identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

NET ASSETS

The net assets of the Organization and changes therein are classified and reported as follows:

- ♦ **Unrestricted:** Unrestricted assets include the net assets that are associated with the principal mission of the Organization.
- ♦ **Unrestricted – Designated for Investment:** Endowment income designated by the Board of Directors for long-term investments (quasi-endowment net assets) and a reserve for the start-up of a charitable gift annuity fund.
- ♦ **Temporarily Restricted:** Temporarily restricted assets include contributions and other assets received with donor stipulations that limit the use of the donated asset. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as **“net assets released from restrictions.”**
- ♦ **Permanently Restricted:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

CONTRIBUTIONS

All unconditional contributions to the Organization are recorded as revenue when received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor. The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. The Organization records unconditional promises to give (pledges) as a receivable and revenue in the year pledged. As of June 30, 2018 and 2017, all pledges are due within one year.

GOVERNMENT GRANTS AND OTHER CONTRACTS

The Organization records revenue from government and other contracts as expenses are incurred.

INVESTMENTS

Investments are reported at their fair values, with gains and losses, included in the accompanying statements of activities. Net investment income is recorded as unrestricted unless specifically restricted by the donors. Contributions of marketable securities are recorded at their market values at the dates of donation.

EQUIPMENT

Equipment is recorded at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, generally five years.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

CONTRIBUTIONS IN-KIND

A substantial number of volunteers have made significant contributions of their time to tutor students participating in the Organization's programs. These donated services are a significant and integral part of the efforts of the Organization and would have to be performed by salaried personnel if the services had not been donated. The estimated fair value of the instructional hours is reported as support and a corresponding expense in the statement of activities. The fair value of such services is computed using the annual number of hours contributed multiplied by the hourly rate that would be paid if such services were to be performed by salaried personnel. The Organization occupies, without charge, various sites located throughout the city that are used for program operations. The estimated fair value of the rentals is reported as support and expense. The fair value of the rentals are computed by using various factors such as the estimated square feet and space occupied, the number of annual hours the site is used and the rent that would be paid if such facilities were not donated.

The Organization received donated books in 2018, which are used in its programs and the value of these materials were recorded as program expenditures.

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2017, from which the summarized information was derived.

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Organization's financial statements, it is not expected to alter the Organization's reported financial position. The Organization plans to adopt the new ASU at the required implementation date.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied retrospectively in the year the ASU is first applied. The Organization plans to adopt the new ASU at the required implementation date.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

In 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. The Organization plans to adopt the new ASU at the required implementation date.

(3) INVESTMENTS

The following is a summary of the Organization's investments at June 30, 2018 and 2017.

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money Markets	\$ 190,822	\$ 190,822	\$ 772	\$ 772
Mutual Funds				
Equity	2,286,907	2,733,060	3,068,108	3,590,320
Fixed Income	<u>2,400,283</u>	<u>2,288,244</u>	<u>2,006,832</u>	<u>1,948,970</u>
	<u>\$ 4,878,012</u>	<u>\$ 5,212,126</u>	<u>\$ 5,075,712</u>	<u>\$ 5,540,062</u>

At June 30, 2018 and 2017, unrealized gains were \$334,114 and \$464,350, respectively.

The Organization uses the total return concept for Endowment Fund income. Under this concept, endowment income to be distributed based on the approval of the board of directors using the average market values of the endowment assets of the prior three years. Total endowment income distributed for operations amounted to \$600,000 and \$600,000 for 2018 and 2017, respectively.

The following schedule summarizes the investment return of the endowment funds and its classification in the statement of activities:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>June 30, 2018 Total</u>	<u>June 30, 2017 Total</u>
Interest and dividends (net of management fees of \$29,839 and \$17,056)	\$ 4,974	\$ 160,825	\$ 165,799	\$ 224,116
Net realized and unrealized gains (losses)	<u>3,035</u>	<u>98,127</u>	<u>101,162</u>	<u>396,421</u>
Return on long-term investments	8,009	258,952	266,961	620,537
Investment return designated for current operations	<u>(18,000)</u>	<u>(582,000)</u>	<u>(600,000)</u>	<u>(600,000)</u>
Investment return in excess (deficit) of amounts designated for current operations	<u>\$ (9,991)</u>	<u>\$ (323,048)</u>	<u>\$ (333,039)</u>	<u>\$ 20,537</u>

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

The Organization utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing Organization’s own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value the Organization’s investments as of June 30, 2018 and 2017 are as follows:

	2018			
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
Money Markets	\$ 190,822	\$ 190,822	\$ -	\$ -
Mutual Funds				
Equity	2,733,060	2,733,060	-	-
Fixed Income	<u>2,288,244</u>	<u>2,288,244</u>	-	-
Totals	<u>\$ 5,212,126</u>	<u>\$ 5,212,126</u>	<u>\$ -</u>	<u>\$ -</u>
	2017			
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
Money Markets	\$ 772	\$ 772	\$ -	\$ -
Mutual Funds				
Equity	3,590,320	3,590,320	-	-
Fixed Income	<u>1,948,970</u>	<u>1,948,970</u>	-	-
Totals	<u>\$ 5,540,062</u>	<u>\$ 5,540,062</u>	<u>\$ -</u>	<u>\$ -</u>

There were no transfers between Level 1 and Level 2 during the years ended June 30, 2018 and 2017.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

(4) LEASE COMMITMENTS

The Organization entered into a lease agreement effective October 2015, and expiring January 31, 2026. The Organization subleases a portion of this office space through October 2019. The Organization received four months of free rent in connection with the signing of this lease, and as such, rental payments required under this lease are reported as rent expense on a straight-line basis over the term of the lease. As of June 30, 2018 and 2017, \$111,704 and \$98,335 have been recorded as deferred rent, respectively. Rent expense for the years ended June 30, 2018 and 2017 amounted to approximately \$209,000 and \$208,000, respectively, net of sublease rental income of approximately \$53,150 and \$43,100. In addition, donated space received by the Organization was approximately \$141,100 and \$105,200 for the years ended June 30, 2018 and 2017, respectively, and is included in contributed goods and services in the statement of activities.

Future minimum rental commitments (exclusive of electricity and real estate taxes) and sublease rental income, under all non-cancelable operating leases at June 30, 2018 are as follows:

<u>Fiscal Year</u>	<u>Commitments</u>	<u>Sublease Income</u>	<u>Commitments Net of Sublease Income</u>
2019	\$ 207,000	\$ 54,200	\$ 152,800
2020	213,200	17,200	196,000
2021	219,600	-	219,600
2022	226,100	-	226,100
2023	232,900	-	232,900
2024 & thereafter	<u>655,900</u>	<u>-</u>	<u>655,900</u>
	<u>\$1,754,700</u>	<u>\$71,400</u>	<u>\$1,683,300</u>

EQUIPMENT LEASES

The Organization leases office equipment under a non-cancelable lease commitment expiring in 2023. Total rent expense on office equipment amounted to \$16,342 and \$15,425 in 2018 and 2017, respectively. The approximate minimal annual rental commitments, under all non-cancelable leases with terms of one year or more for the periods set forth below, are as follows:

<u>Fiscal Year</u>	
2019	\$ 15,600
2020	15,600
2021	15,600
2022	15,600
2023	<u>11,700</u>
	<u>\$74,100</u>

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

(5) NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Literacy programs	\$30,000	\$ -
Accumulated endowment income	<u>-</u>	<u>56,040</u>
	<u>\$30,000</u>	<u>\$56,040</u>

Temporarily restricted net assets include a deficit balance in the accumulated endowment income of the permanently restricted net assets totaling \$267,008 at June 30, 2018. This deficit balance has been reclassified against the unrestricted net assets.

Permanently restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
The Liz Smith Adult Literacy Fund	<u>\$5,261,102</u>	<u>\$5,261,102</u>

ENDOWMENT FUNDS

The Organization's endowment fund consists of both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP in the United States, net assets associated with endowment funds, including funds designated by the Organization to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW

The Organization is incorporated in the state of New York, which has enacted the Uniform Prudent Management of Institutional Funds Act ("*UPMIFA*"). UPMIFA governs donor restricted or permanently restricted endowment funds for not-for-profit corporations. The Organization has interpreted the applicable state standards and guidelines for the prudent management of an endowment fund as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund (i.e. the accumulated realized and unrealized gains/losses) that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution.
- (8) The investment policies of the Organization

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

RETURN OBJECTIVES AND RISK PARAMETERS

The total rate of return (net of fees) is expected to equal or exceed a passive investment in commonly quoted market indices (benchmarks) based on a long-term optimal asset allocation.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY

The Organization has a policy of appropriating for distributions of an approved percentage of its endowment funds' average fair value over the prior three years ending on March 31, of the preceding the fiscal year in which the distribution is planned. For the years ended June 30, 2018 and June 30, 2017, the approved distribution was 10% and 10%, respectively. This policy is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns. In 2017, the approved distribution rate was increased for the establishment of a new project that will enable the Organization to expand its programming, reach and impact.

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or state standards require the Organization to retain as a fund of perpetual duration. At June 30, 2018 and 2017, no donor restricted endowment funds have fallen below the required amount.

Endowment net asset composition by type of fund as of June 30, 2018 and 2017:

	2018			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment funds	<u>\$(108,916)</u>	<u>\$ -</u>	<u>\$5,261,102</u>	<u>\$5,152,186</u>

	2017			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment funds	<u>\$168,083</u>	<u>\$56,040</u>	<u>\$5,261,102</u>	<u>\$5,485,225</u>

The Organization classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as permanently restricted net assets. Income earned on such gifts is classified as temporarily restricted.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

	2018			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 168,083	\$ 56,040	\$ 5,261,102	\$ 5,485,225
Investment return (<i>See Note 3</i>)	8,009	258,952	-	266,961
Recovery of endowment income deficit balances	(267,008)	267,008	-	-
Investment return designated for current operations	<u>(18,000)</u>	<u>(582,000)</u>	<u>-</u>	<u>(600,000)</u>
	<u>\$ (108,916)*</u>	<u>\$ -</u>	<u>\$ 5,261,102</u>	<u>\$ 5,152,186</u>

* *Balance charged to operating net assets*

	2017			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 167,467	\$ 36,119	\$ 5,261,102	\$ 5,464,688
Investment return (<i>See Note 3</i>)	18,616	601,921	-	620,537
Investment return designated for current operations	<u>(18,000)</u>	<u>(582,000)</u>	<u>-</u>	<u>(600,000)</u>
	<u>\$ 168,083</u>	<u>\$ 56,040</u>	<u>\$ 5,261,102</u>	<u>\$ 5,485,225</u>

(6) PENSION PLAN

The Organization has a defined contribution plan covering all eligible employees. Under this plan, eligible employees may contribute up to 5% of their gross wages to be applied to individual annuities issued to each participant by the Teachers Insurance and Annuity Association (“TIAA”) and the College Retirement Equities Fund (“CREF”). The Organization will match the percentage the employee contributes, up to a maximum of \$3,000 per year. Employee and employer contributions vest immediately, while employer contributions vest over a three year period. During the years ended June 30, 2018 and 2017, the Organization contributed approximately \$18,500 and \$30,100, respectively, to the plan.

(7) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, February 8, 2019, have been evaluated in the preparation of the financial statements.