

LITERACY PARTNERS, INC.

*FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS*

JUNE 30, 2020 AND 2019

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, 2020 and the related statements of activities, functional expenses 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 4, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
December 17, 2020

LITERACY PARTNERS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2020 And 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 521,911	\$ 526,413
Investments <i>(Note 3)</i>	8,724,368	4,901,801
Accounts receivable and other assets	7,338	5,217
Contributions receivable	93,500	96,300
Grants receivable	30,606	16,743
Prepaid expenses	152,868	14,550
Inventory	93,755	71,497
Equipment, net of accumulated depreciation of \$383,975 in 2020 and \$334,773 in 2019	151,759	190,094
Security deposit	<u>63,750</u>	<u>63,750</u>
Total assets	<u>\$9,839,855</u>	<u>\$5,886,365</u>
LIABILITIES		
Accounts payable and other accrued expenses	\$ 31,545	\$ 53,943
Deferred rent <i>(Note 4)</i>	150,177	119,044
Deferred revenue	457,129	-
Capital leases <i>(Note 5)</i>	143,409	172,783
Refundable advances <i>(Note 9)</i>	<u>263,617</u>	<u>-</u>
Total liabilities	<u>1,045,877</u>	<u>345,770</u>
NET ASSETS <i>(Note 6)</i>		
Without donor restrictions	4,361,824	847,517
With donor restrictions	<u>4,432,154</u>	<u>4,693,078</u>
Total net assets	<u>8,793,978</u>	<u>5,540,595</u>
Total liabilities and net assets	<u>\$9,839,855</u>	<u>\$5,886,365</u>

LITERACY PARTNERS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Year Ended June 30, 2020 With Summarized Information For 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020</u>	<u>2019</u>
REVENUES				
Public Support				
Foundations and other grants	\$ 305,606	\$ 281,148	\$ 586,754	\$ 82,600
Corporate contributions	20,893	-	20,893	183,190
Individuals	325,110	-	325,110	155,651
Bequests	4,200,000	-	4,200,000	-
Government contracts	-	-	-	19,593
Contributions in-kind	459,325	-	459,325	3,388,819
Net assets released from restriction	<u>69,598</u>	<u>(69,598)</u>	<u>-</u>	<u>-</u>
Total public support	<u>5,380,532</u>	<u>211,550</u>	<u>5,592,082</u>	<u>3,829,853</u>
Other Revenue				
Fund raising events, net of direct benefit to donors of \$0 in 2020 and \$210,924 in 2019	-	-	-	870,989
Investment income (<i>Note 3</i>)	79,559	-	79,559	-
Other investment return on endowment designated for current operations (<i>Note 3</i>)	739,025	-	739,025	500,000
Other revenue	<u>22,493</u>	<u>-</u>	<u>22,493</u>	<u>9,679</u>
Total other revenue	<u>841,077</u>	<u>-</u>	<u>841,077</u>	<u>1,380,668</u>
Total public support and other revenue	<u>6,221,609</u>	<u>211,550</u>	<u>6,433,159</u>	<u>5,210,521</u>
EXPENSES				
Program services	<u>1,758,075</u>	<u>-</u>	<u>1,758,075</u>	<u>4,776,664</u>
Supporting services				
Management and general	267,819	-	267,819	336,220
Fundraising	<u>666,795</u>	<u>-</u>	<u>666,795</u>	<u>722,698</u>
Total supporting services	<u>934,614</u>	<u>-</u>	<u>934,614</u>	<u>1,058,918</u>
Total expenses	<u>2,692,689</u>	<u>-</u>	<u>2,692,689</u>	<u>5,835,582</u>
Excess (deficit) of operating revenues over expenses	3,528,920	211,550	3,740,470	(625,061)
Other Changes				
Investment return in excess (deficit) of amounts designated for current operations (<i>Note 3</i>)	<u>(14,613)</u>	<u>(472,474)</u>	<u>(487,087)</u>	<u>(310,325)</u>
Change in net assets	3,514,307	(260,924)	3,253,383	(935,386)
Net Assets				
Beginning of year	<u>847,517</u>	<u>4,693,078</u>	<u>5,540,595</u>	<u>6,475,981</u>
End of year	<u>\$4,361,824</u>	<u>\$4,432,154</u>	<u>\$8,793,978</u>	<u>\$5,540,595</u>

LITERACY PARTNERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended June 30, 2020 With Summarized Information For 2019

	2020						2019	
	Program Services			Support Services			Total	
	Educational Support	Basic Educational Centers	Family Literacy Centers	Total Program	General And Administrative	Fundraising		
Salaries	\$ 259,956	\$ 325,069	\$ 87,655	\$ 672,680	\$ 114,551	\$ 340,319	\$ 1,127,550	\$ 1,004,029
Payroll taxes and benefits	65,585	82,012	22,115	169,712	28,900	85,859	284,471	269,628
Contributions in-kind								
Instruction and facility	-	30,202	-	30,202	-	-	30,202	59,543
Books	-	102,205	-	102,205	-	-	102,205	157,197
Advertising and promotion	304,661	-	-	304,661	-	-	304,661	3,204,396
Instructional and testing materials	925	390	-	1,315	-	-	1,315	1,309
Occupancy	42,929	53,681	14,475	111,085	18,917	56,200	186,202	177,709
Telephone	747	935	252	1,934	329	978	3,241	5,931
Printing/postage	1,060	4,733	2,303	8,096	840	6,464	15,400	33,692
Office supplies and equipment	5,621	13,208	5,706	24,535	7,065	8,521	40,121	37,690
Travel and conferences	109	4,806	14,093	19,008	125	1,775	20,908	29,213
Professional fees	7,200	104,895	-	112,095	43,625	4,150	159,870	131,507
Fund-raising / special events	-	-	-	-	-	90,802	90,802	124,955
Video production	-	-	-	-	-	-	-	-
Insurance	4,450	5,565	1,501	11,516	1,961	5,826	19,303	24,930
Consultants/outside services	2,783	131,392	-	134,175	10,264	32,420	176,859	459,091
Computer expenses	5,158	6,451	1,739	13,348	2,273	6,753	22,374	38,372
Miscellaneous	10,171	1,429	555	12,155	33,948	11,878	57,981	46,608
Depreciation	11,343	14,185	3,825	29,353	5,021	14,850	49,224	29,782
Total Expenses - 2020	\$ 722,698	\$ 881,158	\$ 154,219	\$ 1,758,075	\$ 267,819	\$ 666,795	\$ 2,692,689	
Total Expenses - 2019	\$ 3,799,808	\$ 944,010	\$ 32,846	\$ 4,776,664	\$ 336,220	\$ 722,698		\$ 5,835,582

LITERACY PARTNERS, INC.

STATEMENT OF CASH FLOWS

June 30, 2020 And 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,253,383	\$ (935,386)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	49,202	29,782
Realized and unrealized (gains) losses on investments	(251,527)	70,148
(Increase) decrease in current assets		
Accounts receivable and other assets	(13,184)	(5,261)
Prepaid expenses	(138,318)	39,493
Inventory	(22,258)	32,317
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(22,398)	26,737
Deferred rent	31,133	7,340
Deferred revenue	457,129	-
Net cash provided by (used for) operating activities	<u>3,343,162</u>	<u>(734,830)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,737,164	5,103,020
Purchase of investments	(5,308,204)	(4,862,843)
Purchase of furniture, fixtures and equipment	<u>(10,867)</u>	<u>(189,658)</u>
Net cash provided by (used for) investing activities	<u>(3,581,907)</u>	<u>50,519</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital lease obligation	-	189,658
Repayment of capital lease	(29,374)	(16,875)
Proceeds from refundable advance	<u>263,617</u>	<u>-</u>
Net cash provided by financing activities	<u>234,243</u>	<u>172,783</u>
Net decrease in cash	(4,502)	(511,528)
CASH		
Beginning of year	<u>526,413</u>	<u>1,037,941</u>
End of year	<u>\$ 521,911</u>	<u>\$ 526,413</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 17,379</u>	<u>\$ 9,841</u>

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 And 2019

(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 (2017 – 2019) or expected to be taken in the Organization’s 2020 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.

FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. These expenses require allocation on a reasonable basis that is consistently applied. The Organization’s payroll, taxes and benefit expenses are allocated based on analysis of time and effort, while other costs are charged directly to the program or department in which the expense was incurred.

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, 2020 And 2019

NET ASSETS

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

- ♦ **Without Donor Restrictions:** Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose associated with the principal mission of the Organization.
- ♦ **With Donor Restrictions:** Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts; pledges; and investment returns on “true” endowment funds. Expirations of restrictions of net assets with donor restrictions are reported as net assets released from restriction.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization, including gifts wherein donors stipulate that the corpus of the gift be held in perpetuity (primarily gifts for endowment) and that only the income be made available for operations or other purposes.

REVENUE RECOGNITION

The Organization recognizes contributions when cash, securities or other assets, and unconditional promise to give, or a notification of a beneficial interest is received. Conditional contributions include donor-imposed conditions with one or more barriers that must be overcome before the Organization is entitled to the assets transferred or promised and there is a right of return to the contributor for assets transferred or a right of release of the promisor from its obligation to transfer assets. The Organization recognizes the contribution when the conditions are substantially met or explicitly waived. Unconditional contributions are classified as without donor restrictions unless there are donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are then classified to net assets without donor restrictions and reported in the statement of activities as “**net assets released from restrictions.**” The Organization records unconditional promises to give (pledges) as a receivable and revenue in the year pledged. As of June 30, 2020 and 2019, all pledges are due within one year.

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 also receives donated books, which are used in its programs and the value of these materials were recorded as program expenditures.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

In 2019, through a partnership with the Metropolitan Transit Authority of New York, the Organization received donated advertising space throughout the New York City subway system for its literacy-based programs. The six-week program enabled subway riders to access various free short stories, poems, essays and book excerpts on any Wi-fi device. The program also included contests on various social media platforms. The results of the program included approximately 165,000 page views on related websites and over 198,000 impressions across several social media platforms. The donated ad space, valued at \$3,204,396, is included contributions in-kind on the statement of activities and changes and net assets.

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.

Investments also include alternative investment in hedge funds whose underlying investments are comprised of other funds, partnerships and trusts. These funds invest in securities and other investments that include both publicly traded investments as well as other investments that do not have readily ascertainable market values. Certain of these investments also are subject to withdrawal restrictions. The general partners of these limited partnerships and other funds that hold investments which do not have readily ascertainable market values provide valuations based on a variety of factors including comparable investments in transactions and operating performance of the underlying companies. The limited partnerships that invest in these other funds use the prices provided by these general managers. The Organization's management may consider other factors in assessing fair value of these investments.

Due to the level of risk associated with certain of these investments, it is possible that changes in the values of investment securities could occur in the near term and that such changes could affect the investment balances.

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.

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, 2019, from which the summarized information was derived.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

ACCOUNTING PRONOUNCEMENTS - ADOPTED

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 was implemented for the year ended June 30, 2020 and did not have a material effect on the financial statements

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

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 to fiscal years beginning after December 15, 2018, then further issued ASU 2020-05 in June of 2020 delaying implementation by another year to fiscal years beginning after December 15, 2019. The Organization plans to adopt this new ASU at the required implementation date.

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 FASB issued ASU 2020-05 in June of 2020 that deferred the effective date of ASU 2016-02 by a year thus the effective date is for fiscal years beginning after December 15, 2021. 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.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

(3) INVESTMENTS

The following is a summary of the Organization's investments at June 30, 2020 and 2019.

	2020		2019	
	Cost	Market	Cost	Market
Cash and Cash Equivalents	\$ 2,556,414	\$ 2,556,414	\$ 233,006	\$ 233,006
Common Stock	2,231,471	2,417,723	1,943,544	2,047,545
Hedge Funds	244,800	238,919	-	-
Mutual Funds and EFTs				
Equity	542,402	554,995	585,027	614,295
Fixed Income	<u>2,792,575</u>	<u>2,956,317</u>	<u>1,978,155</u>	<u>2,006,955</u>
	<u>\$ 8,367,662</u>	<u>\$ 8,724,368</u>	<u>\$ 4,739,732</u>	<u>\$ 4,901,801</u>

At June 30, 2020 and 2019, unrealized gains were \$356,706 and \$162,069, respectively.

Total return on investments for the year ended June 30, 2020 was as follows:

Investment income (net of management fees of \$39,083)	\$ 79,970
Realized and unrealized gains	<u>251,527</u>
	<u>\$ 331,497</u>

Investment return was allocable as follows:

Non-endowment net assets	\$ 79,559
Endowment net assets	<u>251,938</u>
	<u>\$ 331,497</u>

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 \$739,025 and \$500,000 for 2020 and 2019, respectively.

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

	Without Donor Restrictions	With Donor Restrictions	June 30, 2020 Total	June 30, 2019 Total
Total return on investments	7,558	244,380	251,938	189,675
Investment return designated for current operations	<u>(22,171)</u>	<u>(716,854)</u>	<u>(739,025)</u>	<u>(500,000)</u>
Investment return in excess (deficit) of amounts designated for current operations	<u>\$ (14,613)</u>	<u>\$ (472,474)</u>	<u>\$ (487,087)</u>	<u>\$ (310,325)</u>

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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, 2020 and 2019 are as follows:

	2020			
	Total	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Money Markets	\$ 2,556,414	\$ 2,556,414	\$ -	\$ -
Common Stocks	2,417,723	2,417,723	-	-
Mutual Funds				
Equity	554,995	554,995	-	-
Fixed Income	<u>2,956,317</u>	<u>2,956,317</u>	<u>-</u>	<u>-</u>
	8,485,449	<u>\$ 8,485,449</u>	<u>\$ -</u>	<u>\$ -</u>
Hedge Funds reported at Net Asset Value	<u>238,919</u>			
	<u>\$ 8,724,368</u>			
	2019			
	Total	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Money Markets	\$ 233,006	\$ 233,006	\$ -	\$ -
Common Stocks	2,047,545	2,047,545	-	-
Mutual Funds				
Equity	614,295	614,295	-	-
Fixed Income	<u>2,006,955</u>	<u>2,006,955</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 4,901,801</u>	<u>\$ 4,901,801</u>	<u>\$ -</u>	<u>\$ -</u>

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

(4) COMMITMENTS AND CONTINGENCIES

COMMITMENTS

LEASE COMMITMENTS

The Organization has a lease agreement expiring January 31, 2026. The Organization subleases a portion of this office space through October 2020. 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, 2020 and 2019, \$150,177 and \$119,044 have been recorded as deferred rent, respectively. Rent expense for the years ended June 30, 2020 and 2019 amounted to approximately \$158,000 and \$160,000, respectively, net of sublease rental income of approximately \$48,000 and \$55,600. In addition, donated space received by the Organization was approximately \$16,400 for the year ended June 30, 2019, 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, 2020 are as follows:

<u>Fiscal Year</u>	<u>Commitments</u>	<u>Sublease Income</u>	<u>Commitments Net of Sublease Income</u>
2021	\$ 204,600	\$ 16,200	\$ 188,400
2022	256,100	-	256,100
2023	232,900	-	232,900
2024	239,900	-	239,900
2025	247,100	-	247,100
2026	<u>168,900</u>	<u>-</u>	<u>168,900</u>
	<u>\$ 1,349,500</u>	<u>\$ 16,200</u>	<u>\$ 1,333,300</u>

EQUIPMENT LEASES

The Organization leases office equipment under a non-cancelable operating lease commitment expiring in 2023. Total rent expense on office equipment amounted to \$19,256 and \$16,744 in 2020 and 2019, 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>	
2021	\$ 20,600
2022	20,600
2023	<u>15,450</u>
	<u>\$ 56,650</u>

CONTINGENCIES

In early 2020, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The current operating environment is changing rapidly. The extent of the impact that the COVID-19 pandemic will have on the financials performance of the Organization’s investments and operations is not reasonably estimable at this time.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

(5) CAPITAL LEASE OBLIGATIONS

The Organization entered into a capital lease agreement in October 2018 for the purchase of a phone system. The lease calls for 63 monthly payments of \$3,896.

The related phone system is included with equipment at a cost of \$186,318 with accumulated depreciation of \$55,895 and \$18,632 at June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, total interest expense incurred under the lease was \$17,379 and \$9,841, respectively. Future minimum lease payments under these capital leases together with present value of the net minimum lease payments at June 30, 2020 are as follows:

<u>Years Ended June 30,</u>	<u>Amount</u>
2021	\$ 46,752
2022	46,752
2023	46,752
2024	<u>35,064</u>
	175,320
Less: Amount representing interest	<u>(31,911)</u>
Present value of minimum lease payments	<u>\$143,409</u>

(6) NET ASSETS

Net assets with donor restrictions at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
<u>Subject to expenditure for a special purpose</u>		
Literacy programs	\$ 211,550	\$ -
<u>Subject to the passage of time</u>		
Accumulated deficit on endowment	<u>(1,040,498)</u>	<u>(568,024)</u>
	<u>(828,948)</u>	<u>(568,024)</u>
<u>Perpetual in nature:</u>		
The Liz Smith Adult Literacy Fund	<u>5,261,102</u>	<u>5,261,102</u>
Total net assets with donor restrictions	<u>\$ 4,432,154</u>	<u>\$ 4,693,078</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.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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 net assets with donor restrictions (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

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.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

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, 2020 and June 30, 2019, the approved distribution was 14% and 9%, respectively. These distributions reflect the Organization's need to reinvest in program for both program reach and revitalizing the donor community. While in recent years distributions have been high, the Organization believes that it will have a positive effect on its long-term sustainability.

UNDERWATER FUNDS

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, 2020 and 2019, accumulated endowment deficits were \$1,040,498 and \$568,024, respectively.

Endowment net asset composition by type of fund as of June 30, 2020 and 2019:

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment funds	<u>\$134,170</u>	<u>\$4,220,604</u>	<u>\$4,354,774</u>

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment funds	<u>\$148,783</u>	<u>\$4,693,078</u>	<u>\$4,841,861</u>

The Organization classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as net assets with donor restrictions. Income earned on such gifts is classified as with donor restrictions until it is expended in accordance with state law and/or the donor restriction.

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 148,783	\$ 4,693,078	\$ 4,841,861
Investment return (<i>See Note 3</i>)	7,558	244,380	251,938
Investment return designated for current operations	<u>(22,171)</u>	<u>(716,854)</u>	<u>(739,025)</u>
	<u>\$134,170</u>	<u>\$4,220,604</u>	<u>\$4,354,774</u>

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 158,092	\$ 4,994,094	\$ 5,152,186
Investment return (<i>See Note 3</i>)	5,691	183,984	189,675
Investment return designated for current operations	<u>(15,000)</u>	<u>(485,000)</u>	<u>(500,000)</u>
	<u>\$148,783</u>	<u>\$4,693,078</u>	<u>\$4,841,861</u>

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

(7) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The Organization strives to maintain liquid financial assets to be available as its general expenditures, liabilities and other obligations become due. Financial assets in excess of daily cash requirements are invested in money market funds and certificates of deposit maturing within one year. As part of the Organization's liquidity management, it has a practice to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

The following table reflects the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions.

	<u>2020</u>	<u>2019</u>
Financial Assets:		
Cash and cash equivalents	\$ 521,911	\$ 526,413
Investments	8,724,368	4,901,801
Contributions receivable (due within one year)	93,500	96,300
Grants receivable (due within one year)	<u>30,606</u>	<u>16,743</u>
Total financial assets available within one year	9,370,385	5,541,257
Less:		
Net assets with donor restrictions	<u>(4,432,154)</u>	<u>(4,693,078)</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 4,938,231</u>	<u>\$ 848,179</u>

(8) PENSION PLAN

The Organization has a defined contribution plan covering all eligible employees. Under this plan, eligible employees may contribute to individual annuities issued to each participant by the Teachers Insurance and Annuity Association ("**TIAA**") and the College Retirement Equities Fund ("**CREF**"). For eligible employees earning less than \$50,000 annually, the Organization will match the percentage the employee contributes on a 2:1 basis, up to a maximum of \$3,000 per year, while employees earning \$50,000 or more receive matching contributions on a 1:1 basis, also up to a maximum of \$3,000 per year. Employee contributions vest immediately, while employer contributions vest over a three-year period. During the years ended June 30, 2020 and 2019, the Organization contributed approximately \$33,100 and \$23,700, respectively, to the plan.

(9) REFUNDABLE ADVANCE

On April 7, 2020, the Organization received a \$263,617 loan under the Small Business Administration's ("**SBA**") Paycheck Protection Program (the "**PPP Loan**"). The Organization considers this to be a conditional contribution and it expects to meet the criteria for loan forgiveness. The Organization considers the incurrence of eligible expenses and the acceptance of its application for forgiveness by the SBA to be barriers in the PPP Loan agreement and as such, will recognize contribution income when these conditions are substantially met. If such conditions are not met, the Organization is required to repay the PPP Loan in two years from the date of the agreement at a 1% annual interest rate.

LITERACY PARTNERS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2020 And 2019

(10) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, December 17, 2020, have been evaluated in the preparation of the financial statements. There were no material subsequent events to be disclosed other than disclosed above.