

LITERACY SOURCE,
A COMMUNITY LEARNING CENTER

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2020 and 2019

TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
Statements of Financial Position.....	3
Statements of Activities and Net Assets	4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
NOTES TO FINANCIAL STATEMENTS	8-14



LUBY & THOMSON, PLLC
C e r t i f i e d P u b l i c A c c o u n t a n t s

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Literacy Source, A Community Learning Center
Seattle, Washington

We have audited the accompanying financial statements of Literacy Source, A Community Learning Center (also referred to as Literacy Source) which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of the material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies as 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 Literary Source as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Luby & Thomson". The signature is written in a cursive, flowing style.

Luby & Thomson, PLLC
Certified Public Accountants
Bellevue, WA
June 18, 2021

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

	<u>ASSETS</u>	
	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 421,213	\$ 216,303
Accounts receivable	199,824	177,288
Prepaid expenses	6,713	10,960
Total current assets	<u>627,750</u>	<u>404,551</u>
Equipment and leasehold improvements	181,049	181,049
Accumulated depreciation	<u>(145,088)</u>	<u>(110,950)</u>
Net fixed assets	35,961	70,099
Deposits	<u>6,713</u>	<u>6,713</u>
TOTAL ASSETS	<u><u>\$ 670,424</u></u>	<u><u>\$ 481,363</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 14,487	\$ 9,939
Accrued payroll liabilities	18,751	22,832
Current portion of straight line lease liability	3,404	9,372
Current portion Paycheck Protection Program loan	<u>59,804</u>	<u>-</u>
Total current liabilities	<u>96,446</u>	<u>42,143</u>
Straight line lease liability, net of current portion	-	3,404
Deferred copier lease incentive	1,800	2,400
Paycheck Protection Program loan, net of current portion	<u>96,696</u>	<u>-</u>
TOTAL LIABILITIES	<u>194,942</u>	<u>47,947</u>
NET ASSETS:		
Without donor restrictions	424,944	413,225
With donor restrictions	<u>50,538</u>	<u>20,191</u>
Total net assets	<u>475,482</u>	<u>433,416</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 670,424</u></u>	<u><u>\$ 481,363</u></u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENTS OF ACTIVITIES AND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
WITHOUT DONOR RESTRICTIONS		
Revenue and support:		
Washington State Board for Community and Technical Colleges grants	\$ 234,403	\$ 227,274
Other government funding	421,202	404,810
Foundation grants	128,500	45,400
Contract revenue	29,543	46,482
Contributions	284,793	274,352
Interest income	791	785
In-kind donations	127,337	136,727
	1,226,569	1,135,830
Net assets released from restrictions	20,191	20,273
Total revenue and support without donor restrictions	1,246,760	1,156,103
Expenses:		
Program service	1,077,642	1,029,517
Management and general	92,503	87,637
Fundraising	64,896	81,563
	1,235,041	1,198,717
Increase (Decrease) in net assets without donor restrictions	11,719	(42,614)
WITH DONOR RESTRICTIONS		
Foundation grants	50,000	20,000
Contributions	538	191
Net assets released from restriction	(20,191)	(20,273)
	30,347	(82)
Increase (Decrease) in net assets with donor restrictions	30,347	(82)
INCREASE (DECREASE) IN NET ASSETS	42,066	(42,696)
NET ASSETS, beginning of year	433,416	476,112
NET ASSETS, end of year	\$ 475,482	\$ 433,416

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	Program Service	Management & General	Fundraising	Total
Salaries and wages	\$ 601,723	\$ 21,587	\$ 32,318	\$ 655,628
AmeriCorp	29,928	-	-	29,928
Payroll taxes and benefits	94,829	4,010	5,222	104,061
Total payroll & related expenses	<u>726,480</u>	<u>25,597</u>	<u>37,540</u>	<u>789,617</u>
Occupancy	67,417	13,920	1,016	82,353
Professional fees	46,900	19,610	8,750	75,260
Depreciation	31,065	2,902	171	34,138
Contract services	14,295	10,200	3,163	27,658
Educational materials	10,499	-	-	10,499
Tech supplies & licenses	5,414	4,571	-	9,985
Equipment leases & repair	8,779	986	99	9,864
Dues and licenses	4,177	3,579	1,590	9,346
Telephone and internet	6,955	464	309	7,728
Supplies	5,978	999	62	7,039
Childcare	6,472	-	-	6,472
Insurance	3,662	2,339	-	6,001
Event expenses	-	-	4,575	4,575
Bad debt expense	-	2,600	1,360	3,960
Student success	3,856	-	-	3,856
Travel and transportation	3,701	-	41	3,742
Meals & events	3,188	515	-	3,703
Staff professional training	2,639	578	-	3,217
Bank service charges	-	118	2,766	2,884
Postage and delivery	851	185	454	1,490
Other	4,127	190	-	4,317
In-kind expenses	121,187	3,150	3,000	127,337
Total Expense	<u>\$ 1,077,642</u>	<u>\$ 92,503</u>	<u>\$ 64,896</u>	<u>\$ 1,235,041</u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program Service	Management & General	Fundraising	Total
Salaries and wages	\$ 588,628	\$ 11,775	\$ 50,284	\$ 650,687
AmeriCorp	31,867	-	-	31,867
Payroll taxes and benefits	92,690	2,065	9,258	104,013
Total payroll & related expenses	<u>713,185</u>	<u>13,840</u>	<u>59,542</u>	<u>786,567</u>
Occupancy	75,906	7,178	524	83,608
Professional fees	-	30,630	-	30,630
Depreciation	32,090	2,048	-	34,138
Contract services	8,844	9,754	-	18,598
Educational materials	8,127	-	-	8,127
Tech supplies & licenses	3,934	8,629	-	12,563
Equipment leases & repair	9,068	2,153	113	11,334
Dues and licenses	584	2,739	1,729	5,052
Telephone and internet	6,862	448	149	7,459
Supplies	7,796	1,877	33	9,706
Childcare	10,390	-	-	10,390
Insurance	2,793	2,139	-	4,932
Event expenses	-	-	16,098	16,098
Bad debt expense	-	483	880	1,363
Student success	2,708	-	-	2,708
Travel and transportation	6,000	16	16	6,032
Meals & events	2,552	1,881	-	4,433
Staff professional training	1,320	823	-	2,143
Bank service charges	-	106	2,171	2,277
Postage and delivery	253	47	308	608
Education/Training/Outreach	2,763	461	-	3,224
In-kind expenses	134,342	2,385	-	136,727
Total Expense	<u>\$ 1,029,517</u>	<u>\$ 87,637</u>	<u>\$ 81,563</u>	<u>\$ 1,198,717</u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from grants, contributions, and contracts	\$ 1,126,443	\$ 977,488
Cash paid to employees and vendors	(1,078,824)	(1,025,883)
Interest and dividends received	791	785
Net cash provided (used) by operating activities	<u>48,410</u>	<u>(47,610)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Paycheck Protection Program loan	<u>156,500</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>156,500</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	204,910	(47,610)
CASH AND CASH EQUIVALENTS, beginning of year	<u>216,303</u>	<u>263,913</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 421,213</u>	<u>\$ 216,303</u>

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 1. Organization and Significant Accounting Policies

Literacy Source, A Community Learning Center, (the Organization), established in 2001, is a nonprofit corporation located in Seattle, Washington. The Organization provides an inclusive, equitable learning environment where adults can improve basic reading, writing, digital literacy, workplace skills, and English for Speakers of Other Languages (ESOL), as well as apply for citizenship. The Organization works with adults to help them achieve their goals with the assistance of community volunteers. Services are provided at no cost to students.

The Organization has been providing unique and responsive adult literacy services since 1986, when it was a part of another nonprofit organization. During the first few years, they focused primarily on adult basic literacy instruction in Seattle's North End. Today, services also include English for Speakers of other Languages (ESOL), one-on-one tutoring at all levels, digital literacy, workplace basic skills, citizenship and high school completion classes and support.

The Organization's mission is to partner with adults working to gain skills and education to create new opportunities for themselves, their families, and the community. Literacy Source believes that all adults can learn and grow, and they value lifelong learning for all. They envision an inclusive and equitable society providing education and opportunities for all adults.

The Organization's story unfolds each day in their office – and in homes, community centers, and workplaces around Seattle and the Puget Sound region – as adult learners work towards literacy, language skills, citizenship, better jobs and better lives. They make a difference, to students, volunteers, families, employers and communities.

Basis of presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation requires the organization to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.
- *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. All of the Organization's net assets with donor restrictions are temporary in nature.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 1. Organization and Significant Accounting Policies (continued)

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reporting amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: For purposes of the statements of financial position and cash flows, the Organization considers all highly liquid investments, which are readily convertible into known amounts of cash, have a maturity of three months or less, and have no donor restrictions to be cash equivalents.

Concentrations of Credit Risk: The Organization maintains its cash accounts in financial institutions in Seattle, Washington. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank. Cash balances may exceed insured limits throughout the year. The Organization has not experienced losses in such accounts.

Accounts receivable: Accounts receivable are stated at the amount management expects to collect from outstanding balances within the next year. Management does not provide for uncollectible accounts as they believe all accounts are collectible.

Equipment and leasehold improvements: Equipment and leasehold improvements are stated at cost, or if donated, at estimated fair value at date of donation. Long-lived assets with original purchase price greater than \$2,000 are capitalized and depreciated using the straight-line method over the estimated useful lives of the asset of 5 to 7 years.

Revenue recognition: We have analyzed the provisions of the FASB's ASC Topic 606, Revenue from Contracts with Customers, and have concluded that no changes are necessary to conform with the new standard.

The Organization receives revenue from government funding, contributions, foundation grants, and contract revenue. Revenue from these sources is recognized as follows:

- *Government funding* – Revenue from government sources consist primarily of cost reimbursement grants. These grants are recognized as revenue in the period the Organization earns the funds by incurring costs in compliance with the agreement. Payment is received after the funds have been earned. The beginning and ending receivables associated with government funding were \$164,388 and \$157,855, respectively, for the year ended June 30, 2020, and \$129,017 and \$164,388, respectively, for the year ended June 30, 2019.

The Organization's billings under the cost reimbursement grants are subject to audit and retroactive adjustments made by the funding agencies. No adjustments were made for the years ended June 30, 2020 or 2019.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 1. Organization and Significant Accounting Policies (continued)

- *Contributions and foundation grants* – Contributions and foundation grants consist primarily of unconditional promises to give. Unconditional promises to give are recognized as revenue in the period the promise is made. Conditional promises to give are not recognized as support until the conditions are substantially met.

Revenues from contributions and grants are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Revenues that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction is met in the reporting period in which the revenue is recognized. All other donor restricted revenues are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

- *Contract revenue* – Contract revenue consists of exchange transactions with employers and unions to provide on-site classes for employees. Revenue from exchange transactions is recognized in the period the service for the exchanged benefit is performed. If payment is received in advance of services being performed, deferred revenue is recorded. There was no deferred revenue at the beginning or end of the years ended June 30, 2020 or 2019. The beginning and ending receivables associated with contract revenue were \$4,925 and \$1,800, respectively, for the year ended June 30, 2020, and \$1,450 and \$4,925, respectively, for the year ended June 30, 2019.

Contributed services: Many Board members and community volunteers have made significant contributions of time to the Organization's program, policy-making, fundraising, and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services under accounting principles generally accepted in the United States of America and, accordingly, is not reflected in the accompanying financial statements.

Income Tax Status: The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Organization has determined there are no uncertain tax positions for the years ended June 30, 2020 or 2019, and the accompanying financial statements contain no interest or penalties with respect to federal income taxes. The Organization's federal income tax returns remain open for examination to the extent prescribed by the Internal Revenue Code.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 1. Organization and Significant Accounting Policies (continued)

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

Individual expenses that solely relate to one program or supporting service are allocated in full to that category. Expenses that relate to multiple programs or supporting services are allocated as follows:

- *Payroll and related expenses* – allocated based on employee time and effort.
- *Occupancy and depreciation* – allocated based on an estimate of square foot usage of the facilities.
- *Equipment leases & repair and supplies* – allocated based on management’s estimates of uses by each program or supporting service.

Note 2. Availability and Liquidity

The following represents the Organization’s liquidity and availability at June 30:

Financial assets at year end:	2020	2019
Cash and cash equivalents	\$ 421,213	\$ 216,303
Accounts receivable	199,824	177,288
Total financial assets	621,037	393,591
Less amounts not available to be used for general purposes within one year:		
Net assets with donor restrictions	50,538	20,191
Financial assets available to meet general expenditures over the next twelve months	\$ 570,499	\$ 373,400

The Organization’s goal is generally to maintain financial assets to meet three to four months of operating expenses (approximately \$285,000 to \$385,000). Cash and cash equivalents are held in readily available checking and savings accounts.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 2. Availability and Liquidity (continued)

The COVID-19 Pandemic has impacted the Organization's ability to provide in person classes and host fundraising events. This may negatively impact the Organization's revenue during the year ended June 30, 2021. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Organization expects this matter to negatively impact its operating results, the extent of the financial impact and duration cannot be reasonably estimated at this time.

The Organization believes that revenue from signed contracts, financial assets on hand, and the Paycheck Protection Program loan will allow the Organization to continue to operate through one year from the date the financial statements were available to be issued.

Note 3. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following restrictions at June 30:

	<u>2020</u>	<u>2019</u>
Program restrictions		
Adult Education	\$ 30,000	\$ -
Digital Equity	10,000	-
Student Success Fund	538	191
Open Door Project	-	20,000
Time restrictions	<u>10,000</u>	<u>-</u>
	<u>\$ 50,538</u>	<u>\$ 20,191</u>

Net assets released from net assets with donor restrictions are as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Open Door Project	\$ 20,000	\$ 20,000
Student Success Fund	191	-
Childcare Supplies and Furnishings	-	273
	<u>\$ 20,191</u>	<u>\$ 20,273</u>

Note 4. Operating Leases

The Organization leases space in Lake City for offices and classrooms. The rental lease is for five years, which commenced on November 1, 2015. The lease included a free rent period and escalating rents. Straight line lease liability is included in the balance sheet and is being amortized over the life of the lease. Rent expense under this lease was \$67,428 and \$67,428 for the years ended June 30, 2020 and 2019, respectively. This lease was renewed subsequent to year end. See Note 9.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 4. Operating Leases (continued)

The Organization leases a copier under a five year operating lease beginning in June 2018. The lease requires monthly payments of \$750 plus sales tax and printing overages. The Organization received \$3,000 upon signing of this lease as an incentive to replace the previous copier lease. The incentive is being amortized over the life of the new lease. Rent expense, including printing overages and amortization of the copier lease incentive, relating to this lease was \$9,864 and \$11,334 for the years ended June 30, 2020 and 2019, respectively.

Future minimum payments under these leases, excluding subsequent lease renewals, are as follows for the years ended June 30:

2021	\$ 35,761
2022	9,909
2023	9,083
2024	-
	<u>\$ 54,753</u>

Note 5. Economic Dependence

The Washington State Board of Community and Technical Colleges provided approximately 18% and 20% of the total support and revenue for the years ended June 30, 2020 and 2019, respectively.

Note 6. In-kind Contributions

Contributed goods and services are recorded at rates that would have been paid for similar good and services purchased. The Organization received in-kind donations of \$127,337 and \$136,727 in AmeriCorps services, VISTA services, and computer technical support for the years ended June 30, 2020 and 2019, respectively.

Note 7. Retirement Plan

The Organization sponsors a 403(b) retirement plan for eligible employees. Under the Plan, the Organization matches employee contributions up to 3% of gross salary for eligible employees. Employer contributions totaled \$9,763 and \$10,441 for the years ended June 30, 2020 and 2019, respectively.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 8. Paycheck Protection Program Loan

On May 4, 2020, the Organization received loan proceeds in the amount of \$156,500 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight or twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the selected period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization intends to use the proceeds for purposes consistent with the PPP. While the Organization believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, the Organization may be ineligible for forgiveness of the loan, in whole or in part.

If the loan is not forgiven, future principal payments will be \$59,804 and \$96,696 during the years ended June 30, 2021 and 2022, respectively.

Note 9. Subsequent Events

Literacy Source has evaluated subsequent events through the date these financial statements were available to be issued on June 18, 2021.

In July 2020 the Organization signed a renewal of its Lake City lease. The renewal extended the lease term through October 31, 2025. The renewal also allows the landlord to terminate the lease early for the purpose of redeveloping the property. If the landlord exercises the right to terminate the lease, the Organization will receive a pro-rated termination fee calculated from the initial cost of tenant improvements. A provision was added to allow the Organization to terminate the lease for any reason with twelve months advance written notice.

In June 2021, the Organization was notified that the Small Business Administration approved full forgiveness of the PPP loan discussed in Note 8.