

**LITERACY, INC.**

**Financial Statements  
for year ended  
June 30, 2014**

## Independent Auditor's Report

To the Board of Directors  
Literacy, Inc.

We have audited the accompanying financial statements of Literacy, Inc. ("LINC") which comprise the statement of financial position as of June 30, 2014 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'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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Literacy, Inc. as of June 30, 2014 and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Report on Summarized Comparative Information*

We have previously audited LINC's 2013 financial statements, and our report dated September 16, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Cordun O'Meara McElitz & Donnelly LLP*

## LITERACY, INC.

## Statement of Financial Position

## Assets

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$1,019,736	\$ 676,098
Investments, at fair value	8,429	-
Contributions and grants receivable, net	1,239,107	1,352,506
Prepaid expenses	9,385	1,438
Property and equipment, at cost	15,086	15,035
Security deposit	<u>8,200</u>	<u>4,600</u>
<b>Total assets</b>	<b><u>\$2,299,943</u></b>	<b><u>\$2,049,677</u></b>

## Liabilities and Net Assets

<b>Liabilities</b>		
Accounts payable and accrued expenses	<u>\$ 80,441</u>	<u>\$ 54,757</u>
<b>Net assets</b>		
Unrestricted	548,970	434,696
Temporarily restricted	<u>1,670,532</u>	<u>1,560,224</u>
Total net assets	<u>2,219,502</u>	<u>1,994,920</u>
<b>Total liabilities and net assets</b>	<b><u>\$2,299,943</u></b>	<b><u>\$2,049,677</u></b>

See notes to financial statements.

LITERACY, INC.

Statement of Activities

	Year Ended June 30					
	2014		2013			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Support and revenue</b>						
Foundation and corporate contributions	\$ 66,500	\$ 640,500	\$ 707,000	\$ 172,000	\$ 1,230,000	\$ 1,402,000
Individual contributions	123,913	-	123,913	88,036	-	88,036
Governmental contributions	34,913	397,556	432,469	23,760	45,750	69,510
Special event (net of direct costs of \$112,433 in 2014 and \$88,453 in 2013)	257,856	-	257,856	214,229	-	214,229
In-kind goods and services	136,630	-	136,630	126,063	-	126,063
Other revenue	3,133	-	3,133	1,061	-	1,061
Net assets released from restrictions	927,748	(927,748)	-	370,772	(370,772)	-
Total support and revenue	<u>1,550,693</u>	<u>110,308</u>	<u>1,661,001</u>	<u>995,921</u>	<u>904,978</u>	<u>1,900,899</u>
<b>Expenses</b>						
Program services	1,080,622	-	1,080,622	753,601	-	753,601
Supporting services						
Management and general	127,213	-	127,213	64,915	-	64,915
Fund-raising	228,584	-	228,584	125,911	-	125,911
Total supporting expenses	355,797	-	355,797	190,826	-	190,826
Total expenses	<u>1,436,419</u>	<u>-</u>	<u>1,436,419</u>	<u>944,427</u>	<u>-</u>	<u>944,427</u>
Increase in net assets	114,274	110,308	224,582	51,494	904,978	956,472
Net assets, beginning of year	434,696	1,560,224	1,994,920	383,202	655,246	1,038,448
Net assets, end of year	<u>\$ 548,970</u>	<u>\$ 1,670,532</u>	<u>\$ 2,219,502</u>	<u>\$ 434,696</u>	<u>\$ 1,560,224</u>	<u>\$ 1,994,920</u>

See notes to financial statements.

## LITERACY, INC.

**Statement of Functional Expenses**  
**Year Ended June 30, 2014**  
**(with Summarized Comparative Financial Information**  
**for the Year Ended June 30, 2013)**

	<u>2014</u>				<u>2013</u>
	<u>Program</u> <u>Services</u>	<u>Supporting Services</u>		<u>Total</u>	<u>Total</u>
		<u>Management</u> <u>and</u> <u>General</u>	<u>Fund-</u> <u>Raising</u>		
Salaries and wages	\$ 671,181	\$ 67,763	\$ 81,478	\$ 820,422	\$ 531,351
Payroll taxes and employee benefits	110,424	11,149	13,405	134,978	90,261
Consultants	8,553	6,359	76,832	91,744	76,960
Professional fees	46,349	19,347	8,849	74,545	18,000
Outreach and meetings	16,224	-	-	16,224	15,747
Supplies	64,466	2,995	3,601	71,062	15,029
Conferences and training	8,309	-	-	8,309	1,826
Travel	8,877	179	216	9,272	3,980
Occupancy	42,870	4,328	5,203	52,401	26,715
Telephone and internet	2,234	226	271	2,731	4,399
Printing and publications	1,480	149	180	1,809	7,950
Depreciation	2,881	291	350	3,522	1,043
Insurance	2,206	223	268	2,697	1,224
Books and materials	-	-	-	-	8,629
Payroll service	3,186	321	387	3,894	3,469
Postage, dues and subscriptions	1,706	102	122	1,930	1,390
Maintenance	1,549	156	188	1,893	5,134
Miscellaneous	1,927	195	234	2,356	5,257
<b>Sub-total without in-kind contributions</b>	<b><u>994,422</u></b>	<b><u>113,783</u></b>	<b><u>191,584</u></b>	<b><u>1,299,789</u></b>	<b><u>818,364</u></b>
<b>In-kind contributions</b>					
Contributed legal services	-	11,430	-	11,430	9,572
Contributed professional services	84,805	2,000	37,000	123,805	59,532
Contributed books and materials	1,395	-	-	1,395	56,959
<b>Sub-total in-kind contributions</b>	<b><u>86,200</u></b>	<b><u>13,430</u></b>	<b><u>37,000</u></b>	<b><u>136,630</u></b>	<b><u>126,063</u></b>
<b>Total</b>	<b><u>\$ 1,080,622</u></b>	<b><u>\$ 127,213</u></b>	<b><u>\$ 228,584</u></b>	<b><u>\$ 1,436,419</u></b>	<b><u>\$ 944,427</u></b>

See notes to financial statements.

## LITERACY, INC.

## Statement of Cash Flows

	Year Ended	
	June 30	
	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 224,582	\$ 956,472
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	3,522	1,043
Donated stock	(8,429)	-
(Increase) decrease in assets		
Contributions and grants receivable	113,399	(699,391)
Prepaid expenses	(7,947)	2,606
Security deposit	(3,600)	(4,600)
Increase in liabilities		
Accounts payable and accrued expenses	<u>25,684</u>	<u>25,041</u>
Net cash provided by operating activities	347,211	281,171
<b>Cash flows (used in) investing activities</b>		
Purchases of property and equipment	<u>(3,573)</u>	<u>(16,078)</u>
Net increase in cash and cash equivalents	343,638	265,093
<b>Cash and cash equivalents, beginning of year</b>	<u>676,098</u>	<u>411,005</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$1,019,736</u>	<u>\$ 676,098</u>

See notes to financial statements.

**LITERACY, INC.****Notes to Financial Statements****June 30, 2014****Note 1 – Nature of organization**

Literacy, Inc. (“LINC”) works in partnership with schools, families and community organizations, to provide low-income children in New York City with the support they need to read on grade level by third grade and sustain that literacy achievement.

**Note 2 – Summary of significant accounting policies****Net assets**

Unrestricted net assets consist of amounts that can be spent at the discretion of LINC.

Temporarily restricted net assets consist of contributions that are restricted by the donor for a specific project or purpose or relate to future periods.

**Contributions**

LINC records contributions as unrestricted revenue unless the donor stipulates a time or limits the use of the donated assets.

Contributions received with donor stipulations that limit the use of the donated assets are reported as permanently or temporarily restricted support. When a donor stipulation regarding a temporarily restricted contribution expires – that is, when a stipulated time restriction ends or the purpose for the restriction is accomplished – temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of stock are recorded at fair value on the date of the gift.

**Cash equivalents**

LINC considers highly liquid investments with original maturities of 90 days or less to be cash equivalents. Included in cash equivalents is a money market fund.

**Allowance for doubtful accounts**

LINC has an allowance for doubtful accounts of \$5,000 for its grants and contributions receivable that may not be collectible. Such estimate is based on management’s experience, the aging of the receivables, subsequent receipts and the current economic conditions.

**Fair value measurements**

Fair value measurements establish a hierarchy that prioritizes the inputs used to measure fair value into three broad levels. All of LINC's investments are measured using Level 1 inputs, which is defined as quoted prices in active markets at the measurement date.



**LITERACY, INC.****Notes to Financial Statements (continued)****June 30, 2014****Note 2 – Summary of significant accounting policies (continued)****Property and equipment**

Acquisitions of property and equipment in excess of \$1,000 and with an estimated useful life of longer than a year are capitalized and recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years. During 2013, LINC wrote off fully depreciated equipment totaling \$45,567.

Contributed property and equipment is recorded at the approximate fair value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, LINC has adopted a policy of not implying a time restriction on contributions of such assets. As a result, all contributions of property and equipment, and assets contributed to acquire property and equipment, are recorded as unrestricted support.

**Functional expenses**

The cost of providing the various programs and other activities has been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**In-kind goods and services**

During the 2014 and 2013 fiscal years, LINC received staff time, legal fees, professional services and contributions of books and materials. These goods and services were an integral part of the activities of LINC and would have had to be purchased by LINC if they had not been donated. The goods and services, totaling \$136,630 in 2014 and \$126,063 in 2013, were recorded at the fair value based on what it would have cost LINC to purchase them independently and have been reflected as support and expenses in the statement of activities.

During the 2014 and 2013 fiscal years, LINC received \$35,000 of donated professional fees related to LINC's annual special event. This amount is reflected in the special event line on the statement of activities.

**Concentrations of credit risk**

LINC's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents, investments and contributions, grants and accounts receivable. LINC places its cash and cash equivalents with what it believes to be quality financial institutions. LINC's investments consist of common stock. LINC's contributions and grant receivable consist principally of amounts due from foundations, corporations and government sources. LINC believes no significant concentrations of credit risk exist with respect to its cash, cash equivalents, investments and contributions, grants and accounts receivable.

**LITERACY, INC.**

**Notes to Financial Statements (continued)**

**June 30, 2014**

**Note 2 – Summary of significant accounting policies (continued)**

Use of 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 amounts reported in the financial statements. Actual results could differ from these estimates.

Subsequent events

LINC has evaluated events and transactions for potential recognition or disclosure through September 11, 2014, which is the date the financial statements were available to be issued.

Comparative financial information

The financial statements include certain prior-year summarized comparative financial information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with LINC's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

**Note 3 – Investments**

The following is a summary of investments as of June 30, 2014:

	<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 8,429	\$ 8,429

## LITERACY, INC.

## Notes to Financial Statements (continued)

June 30, 2014

**Note 4 – Contributions and grants receivable**

Contributions and grants receivable consist of the following as of June 30, 2014 and June 30, 2013 and are due as follows:

	<u>2014</u>	<u>2013</u>
Foundations and corporations	\$ 754,980	\$1,269,850
City of New York	401,126	69,889
State of New York	50,000	-
Individuals	-	5,200
Event	33,001	7,200
Other	<u>-</u>	<u>367</u>
Total	<u>\$1,239,107</u>	<u>\$1,352,506</u>
Due within one year	\$1,164,107	\$ 852,506
Due within one to five years	<u>75,000</u>	<u>500,000</u>
Total	<u>\$1,239,107</u>	<u>\$1,352,506</u>

**Note 5 – Property and equipment**

A summary of property and equipment and related accumulated depreciation and amortization as of June 30, 2014 and June 30, 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Office furniture and equipment	\$ 10,451	\$ 6,878
Program equipment	<u>9,200</u>	<u>9,200</u>
Sub-total	19,651	16,078
Less: accumulated depreciation and amortization	<u>4,565</u>	<u>1,043</u>
Net property and equipment	<u>\$ 15,086</u>	<u>\$ 15,035</u>

**Note 6 – Temporarily restricted net assets**

The following is a summary of the activity of the temporarily restricted net assets for the year ended June 30, 2014:

<u>Program/Purpose</u>	<u>Balance, June 30, 2013</u>	<u>Contributions and Grants</u>	<u>Net Assets Released from Restrictions</u>	<u>Balance, June 30, 2014</u>
Mimi Levin Lieber Award	\$ 7,496	\$ -	\$ -	\$ 7,496
Literacy support	<u>1,552,728</u>	<u>1,038,056</u>	<u>(927,748)</u>	<u>1,663,036</u>
Total	<u>\$1,560,224</u>	<u>\$1,038,056</u>	<u>\$ (927,748)</u>	<u>\$1,670,532</u>

**LITERACY, INC.****Notes to Financial Statements (continued)****June 30, 2014****Note 7 – Mimi Levin Lieber Award**

In connection with its 10th Anniversary Gala, LINC established and solicited donations for the Mimi Levin Lieber Award fund. Additional contributions to the fund were made in subsequent years. The contributions are to be used to provide cash awards to community partners in recognition of their efforts in support of early literacy. The awards are named in honor of LINC's Founder, Mimi Levin Lieber. The contributions are recorded as temporarily restricted net assets, and the interest earned on such funds is unrestricted.

**Note 8 – Office lease**

Effective August 30, 2012, LINC entered into an agreement to lease office space until August 31, 2015. The lease requires monthly payments of \$2,300 and a security deposit of \$4,600. Effective October 15, 2013, LINC agreed to lease additional office space until October 31, 2016. The lease requires an increase in the monthly payments of \$1,800 and an additional security deposit of \$3,600. In addition to the monthly rent payments, LINC is also charged for electricity, storage and use of a conference room. Occupancy expense for the years ended June 30, 2014 and June 30, 2013 was \$52,401 and \$26,715, respectively.

**Note 9 – Retirement plan**

LINC maintains a tax-deferred annuity plan (the "Plan") for all eligible employees. Employees can make voluntary contributions to the Plan in accordance with Internal Revenue Code regulations. LINC does not make contributions to the Plan.

**Note 10 – Tax status**

LINC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). In addition, LINC has been determined by the Internal Revenue Service to be a publicly supported organization and not a private foundation within the meaning of Section 509(a)(1) of the Code and qualifies for the maximum charitable deduction for donors. As of June 30, 2014, no amounts were recognized for uncertain income tax positions. In addition, LINC's tax returns for the fiscal year 2011 and forward are subject to the usual review by the appropriate taxing authorities.