

DELAWARE COUNTY LITERACY COUNCIL

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

**DELAWARE COUNTY LITERACY COUNCIL
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JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Delaware County Literacy Council
Chester, Pennsylvania

We have audited the accompanying financial statements of Delaware County Literacy Council, (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Delaware County Literacy Council as of June 30, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020, on our consideration of Delaware County Literacy Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Delaware County Literacy Council's internal control over financial reporting and compliance.



Brinker Simpson & Company, LLC
Springfield, Pennsylvania
March 31, 2020

**DELAWARE COUNTY LITERACY COUNCIL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
Current Assets		
Cash	\$ 399,497	\$ 214,684
Cash - restricted for grant expenses	-	6,216
Grants receivable	25,126	118,667
Prepaid expenses	1,183	8,743
Total Current Assets	425,806	348,310
Property and Equipment, Net	309,602	140,819
Total Assets	\$ 735,408	\$ 489,129
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 53,169	\$ 23,442
Grants payable	33,473	-
Mortgage payable - current portion	7,740	7,980
Total Current Liabilities	94,382	31,422
Mortgage Payable - Long Term Portion	109,877	117,617
Total Liabilities	204,259	149,039
Net Assets		
Without donor restrictions	531,149	190,850
With donor restrictions	-	144,240
Total Net Assets	531,149	335,090
Total Liabilities and Net Assets	\$ 735,408	\$ 484,129

See notes to financial statements.

**DELAWARE COUNTY LITERACY COUNCIL
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support						
Contributions and grants	\$ 107,564	\$ 5,198	\$ 112,762	\$ 99,625	\$ 16,622	\$ 116,247
Program service revenue	1,217,280	-	1,217,280	544,422	-	544,422
Special events	16,008	-	16,008	18,530	-	18,530
In-kind donations	82,205	-	82,205	12,684	-	12,684
Investment income	898	-	898	141	-	141
Net Assets Released From Restrictions	1,423,955	5,198	1,429,153	675,402	16,622	692,024
Satisfaction of program restrictions	149,438	(149,438)	-	8,260	(8,260)	-
Total Revenues and Support	1,573,393	(144,240)	1,429,153	683,662	8,362	692,024
Expenses						
Program services	1,053,323	-	1,053,323	556,369	-	556,369
Management and general	140,024	-	140,024	57,364	-	57,364
Fundraising	39,747	-	39,747	20,865	-	20,865
Total Expenses	1,233,094	-	1,233,094	634,598	-	634,598
Changes in Net Assets	340,299	(144,240)	196,059	49,064	8,362	57,426
Net Assets, Beginning	190,850	144,240	335,090	141,786	135,878	277,664
Net Assets, Ending	\$ 531,149	\$ -	\$ 531,149	\$ 190,850	\$ 144,240	\$ 335,090

See notes to financial statements.

**DELAWARE COUNTY LITERACY COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 690,989	\$ 100,830	\$ 21,110	\$ 812,929
Employee benefits	82,942	10,300	4,336	97,578
Payroll taxes	49,278	8,696	-	57,974
Fees for service	28,311	12,467	-	40,778
Rent expense	59,650	-	-	59,650
Repairs and maintenance	13,777	1,259	-	15,036
Utilities	14,516	764	-	15,280
Equipment lease	4,632	244	-	4,876
Insurance	12,139	639	-	12,778
Telephone	4,500	529	265	5,294
Advertising	-	-	879	879
Travel	1,604	-	-	1,604
Office supplies and expense	15,733	1,644	655	18,032
Website	1,131	133	67	1,331
Textbooks and materials	37,427	-	-	37,427
Interest expense	5,130	270	-	5,400
Depreciation	16,023	843	-	16,866
Training and staff development	8,635	1,406	-	10,041
Special events	1,853	-	11,836	13,689
Postage	-	-	599	599
Volunteer related	5,053	-	-	5,053
	<u>\$ 1,053,323</u>	<u>\$ 140,024</u>	<u>\$ 39,747</u>	<u>\$ 1,233,094</u>

See notes to financial statements.

**DELAWARE COUNTY LITERACY COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 274,560	\$ 37,141	\$ 11,311	\$ 323,012
Employee benefits	40,362	5,078	2,045	47,485
Payroll taxes	20,010	3,531	-	23,541
Fees for service	2,844	8,339	-	11,183
Repairs and maintenance	6,241	328	-	6,569
Utilities	13,496	710	-	14,206
Equipment lease	3,228	170	-	3,398
Insurance	9,712	511	-	10,223
Telephone	2,657	313	156	3,126
Advertising	-	-	139	139
Travel	1,653	-	-	1,653
Office supplies and expense	677	75	-	752
Website	1,768	208	104	2,080
Textbooks and materials	16,761	-	-	16,761
Interest expense	5,127	270	-	5,397
Depreciation	13,116	690	-	13,806
Training and staff development	1,835	-	-	1,835
Special events	-	-	6,563	6,563
Postage	669	-	547	1,216
Volunteer related	6,429	-	-	6,429
Due to other agencies	135,224	-	-	135,224
	<u>\$ 556,369</u>	<u>\$ 57,364</u>	<u>\$ 20,865</u>	<u>\$ 634,598</u>

See notes to financial statements.

**DELAWARE COUNTY LITERACY COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Changes in net assets	\$ 196,059	\$ 57,426
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	16,866	13,806
Change in:		
Prepaid expenses	7,560	(7,447)
Grants receivable	88,541	(14,911)
Grants payable	33,473	-
Accounts payable and accrued expenses	29,727	12,404
Net Cash Provided by Operating Activities	<u>372,226</u>	<u>61,278</u>
Cash Flows From Investing Activities		
Contributions received for new roof	-	15,622
Purchases of property and equipment	(185,649)	(11,268)
Net Cash Provided by (Used in) Investing Activities	<u>(185,649)</u>	<u>4,354</u>
Cash Flows From Financing Activities		
Repayments of mortgage payable	(7,980)	(7,055)
Net Change in Cash and Cash - Restricted	178,597	58,577
Cash and Cash - Restricted, Beginning	<u>220,900</u>	<u>162,323</u>
Cash and Cash - Restricted, Ending	<u>\$ 399,497</u>	<u>\$ 220,900</u>
Supplemental Disclosures		
Interest paid	<u>\$ 5,400</u>	<u>\$ 5,397</u>

See notes to financial statements.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 1: DESCRIPTION OF OPERATIONS

Delaware County Literacy Council (“the Literacy Council”) is a private, nonprofit adult education organization that was incorporated in 1975. Adult students receive free instruction from classroom teachers or volunteer tutors in the areas of basic reading, writing, math, preparation for the high school equivalency exam, or English as a second language.

During the 2018-19 program year, the Literacy Council served over 570 adults in Delaware County of Southeastern Pennsylvania. As a result of working with the Literacy Council, adult students achieved quantitative improvements in their lives including improved basic skill, GED attainment, employment or retained employment, U.S. Citizenship, and post-secondary education enrollment. All adults serviced by the Literacy Council improve their lives in some way including reading to children, becoming better informed citizens, and becoming engaged in their community.

The Literacy Council is led by a volunteer board of directors which uses a four-year strategic plan to ensure it achieves well-articulated benchmarks while using careful financial management to progress toward its mission.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Literacy Council follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Nonprofit Entities. For financial reporting purposes, the Literacy Council follows the reporting requirements of generally accepted accounting principles, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification into two classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follows:

Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the Literacy Council.

With Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Literacy Council 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 and grants for building and equipment not yet placed in service. Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for building and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

Use of Estimates

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

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Support

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. 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 Statement of Activities and Changes in Net Assets as net assets released from restriction.

Grants with state and local government agencies are deemed to be exchange transactions and, accordingly, revenue is recognized when funds are utilized by the Literacy Council to carry out the activity stipulated in the grant contract.

In-kind Contributions

The Literacy Council recognizes in-kind contributions in excess of \$500 as revenue at their estimated fair value as of the date of donation. The related offsetting expense is recorded in the period of use on the Statements of Activities and Changes in Net Assets. In-kind contributions during the years ended June 30, 2019 and 2018 totaled \$82,205 and \$12,684, respectively.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Literacy Council generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Literacy Council with its mission. The Literacy Council has estimated that 107 volunteers donated approximately 6,000 hours for the year ended June 30, 2019 and 165 volunteers have donated approximately 8,200 hours of their time for the year ended June 30, 2018.

Grants Receivable

Grants receivable represent amounts that are due from grants, but not collected as of June 30, 2019 and 2018. Receivable balances are due from governmental agencies and a private foundation and are expected to be collected within the next fiscal year. Management has determined that all amounts at June 30, 2019 and 2018 are fully collectible and no allowance for doubtful accounts is necessary.

Property and Equipment

Property and equipment are stated at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Generally, items over \$500 are capitalized. The cost of property and equipment is depreciated over the estimated useful lives of the related assets using straight-line and accelerated methods. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Lived Assets

Long-lived assets held and used by the Literacy Council are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed. No impairments were noted during the years ended June 30, 2019 and 2018.

Income Taxes

The Literacy Council is a nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code and is exempt from both federal and state income taxes.

Management evaluates the Literacy Council's tax position to determine if they meet the minimum thresholds for financial statement recognition of the benefits of uncertain tax positions taken or expected to be taken in filing tax returns. Recognition of tax benefits of an uncertain tax position is required only when the position is "more likely than not" to be sustained assuming examination by taxing authorities. Management has evaluated the Literacy Council's tax position taken or expected to be taken for all open periods and has concluded that it has no uncertain tax position as of June 30, 2019. The Literacy Council is subject to routine audits by taxing jurisdictions. At June 30, 2019, the Literacy Council's tax returns remain subject to examination for the last three years.

Allocation of Functional Expenses

The financial statements report certain expenses that are attributable to one or more program or supporting services, as summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Salaries, employee benefits, and payroll taxes, and training and staff development are allocated based on estimates of time and effort. Fees for service are allocated based on full-time equivalent. Occupancy costs have been allocated based upon square footage. All other expenses related to more than one function are allocated based on estimates of time and costs.

Reclassification

Certain reclassifications have been made to the June 30, 2018 financial statements to conform to the June 30, 2019 presentation.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2018. The Literacy Council is currently evaluating the impact of the provisions of ASC 606.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 2: Summary of Significant Accounting Policies (continued)

On June 21, 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. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019, for transactions in which the entity serves as the resource recipient. Early application of the amendments in this Update is permitted. The Literacy Council is currently in the process of determining the impact of the new standard and has not elected to early implement the amendments.

NOTE 3: CONTRACTS AND GRANTS FROM GOVERNMENTAL AGENCIES

The Literacy Council, in the normal course of business, receives grants and enters into contracts for the performance of specific activities within certain budgetary constraints. Such projects are subject to various stipulations as to operating compliance and financial reporting. For substantially all of these programs, the expenditures are subject to review, audit, and final approval by the contracting agency.

NOTE 4: CASH AND CASH - RESTRICTED

During the year ended June 30, 2019, the Organization adopted ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*, which requires the statement of cash flows to show the change during the period in the total of cash, cash equivalents and restricted cash. Amounts described as restricted cash should be included as cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

	2019	2018
Cash	\$ 399,497	\$ 214,684
Cash - restricted for grant expenses	-	6,216
Total Cash and Cash Restricted	\$ 399,497	\$ 220,900

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 5: AVAILABILITY AND LIQUIDITY

The following represents the Literacy Council's financial assets at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash restricted	\$ 399,497	\$ 220,900
Grants receivable	25,126	118,667
Total financial assets	<u>424,623</u>	<u>339,567</u>
Less amounts not available to be used within one year:		
Restricted by donor with time or purpose restrictions	<u>-</u>	<u>(144,240)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 424,623</u>	<u>\$ 195,327</u>

The Literacy Council has a goal to maintain financial assets, which consist of cash on hand and grants receivable without donor restrictions, to meet 90 days of normal operating expenses, which currently are, on average, approximately \$300,000. The Literacy Council has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Literacy Council also has committed a line of credit in the amount of \$140,000, which it could draw upon in the event of an unanticipated liquidity need.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 10,000	\$ 10,000
Building	94,500	94,500
Building improvements	308,665	165,579
Equipment	<u>118,740</u>	<u>76,177</u>
	531,905	346,256
Less: Accumulated depreciation	<u>(222,303)</u>	<u>(205,437)</u>
	<u>\$ 309,602</u>	<u>\$ 140,819</u>

Depreciation expense was \$16,866 and \$13,806 for the years ended June 30, 2019 and 2018, respectively.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 7: DEBT

The Literacy Council has a \$140,000 line of credit with Franklin Mint Federal Credit Union with a maturity date of December 31, 2021, at a variable interest rate equal to the Wall Street Journal U.S. Prime Rate. The line of credit is secured by the Literacy Council's building located in Chester, Pennsylvania.

There were no borrowings on the Line of Credit at June 30, 2019 and 2018.

On August 1, 2006, the Literacy Council obtained a mortgage loan in the amount of \$180,000 from The Bryn Mawr Trust Company, due August 1, 2031. The loan has a fixed interest rate of 4.5% and is payable in monthly installments of \$1,062, including interest. It is secured by land and building.

The future scheduled maturities are as follows:

For the Year Ending June 30:		
2020	\$	7,740
2021		8,070
2022		8,401
2023		8,746
2024		9,096
Thereafter		75,564
		\$ 117,617

Interest expense for the years ended June 30, 2019 and 2018 totaled \$7,266 and \$5,397, respectively.

NOTE 8: DONATED SERVICES, FACILITIES AND SUPPLIES

The Literacy Council received donated professional services, facilities, equipment and supplies during its fiscal year. The value of these items is reflected within the accompanying financial statements for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Fundraising supplies and rentals	\$ 10,029	\$ 4,926
Classroom space	49,500	-
Internet service	2,004	2,004
Office supplies	6,380	3,254
Technology services	14,292	-
Equipment and fixtures	-	2,500
	\$ 82,205	\$ 12,684

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 9: CONCENTRATION OF REVENUES AND OTHER SUPPORT

The Literacy Council received revenues and other support from three Commonwealth of Pennsylvania Department of Education Grants representing 78% and 72% of total revenues and support for the years ended June 30, 2019 and 2018, respectively. One of the grants requires any funds received to be held in a separate bank account. These funds are reflected as restricted cash in the Statements of Financial Position.

During the fiscal year ended June 30, 2018, at the request of the Pennsylvania Department of Education, the Literacy Council acted as a financial intermediary for six smaller adult education programs (subcontractors). As the financial intermediary, the Literacy Council passed through funding received from the Department of Education to these six programs.

Total funds passed through to these subcontractors totaled \$0 and \$135,224 during the fiscal years ended June 30, 2019 and 2018, as follows:

	2019	2018
Keystone Opportunity Center	\$ -	\$ 47,858
Literacy Council of Norristown	-	21,270
Won Community Services Center	-	18,991
Adult Literacy Program of Abington Free Library	-	33,425
YMCA of Pottstown	-	13,680
	\$ -	\$ 135,224

NOTE 10: COMMITMENTS

The Literacy Council is leasing office equipment under a five-year operating lease, expiring in June 2019, at a monthly lease base amount of \$205 with additional usage overage charges added quarterly. The Literacy Council leased new office equipment under a five-year operating lease, expiring March 2024, at a monthly lease base amount of \$479 with additional usage overage charges added quarterly. Lease expense for the years ended June 30, 2019 and 2018 was \$4,876 and \$3,398, respectively.

Effective March 1, 2019, the commencement date, the Literacy Council leased additional space to provide program services at a second location. The lease is a two year operating lease, with a two year automatic renewal option. The monthly base rent is \$1,350. Annually, the base rent is subject to an incremental increase of no more than 3% on the anniversary of the commencement date. Rent expense for the years ended June 30, 2019 and 2018 was \$59,650 and \$0, respectively. Rent expense for the year ended June 30, 2019 includes donated rent in the amount of \$49,500.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 10: COMMITMENTS (continued)

Future minimum rent payments are as follows:

For the Year Ending June 30:	
2020	\$ 21,948
2021	16,548
2022	5,748
2023	5,748
2024	3,832
	\$ 53,824

NOTE 11: EMPLOYEE BENEFIT PLAN

The Literacy Council sponsors a contributory Simple IRA plan for all eligible employees. To be eligible, an employee must have earned at least \$5,000 in either of the two preceding years and is expected to be paid at least \$5,000 in the current year. As prescribed in Section 408(p) of the Internal Revenue Code, participating employee contributions are limited to \$13,000 for 2019 and \$12,500 for 2018. In addition, employees who will be age 50 by the end of 2018 are permitted to make an additional catch up contribution of \$3,000. The Literacy Council matches the employees' contributions up to 3% of compensation or \$13,000, (\$16,000 if age 50 or older), whichever is less. Matching contributions to the plan by the Literacy Council for the years ended June 30, 2019 and 2018 totaled \$10,855 and \$6,603, respectively.

NOTE 12: GRANTS RECEIVABLE – WITH DONOR RESTRICTIONS

Grants receivable of \$108,667 at June 30, 2018 are restricted by governmental agencies for the replacement of the roof and program expenses. The block grants awarded by Delaware County and City of Chester for \$100,000 and \$5,000, respectively, restrict the Literacy Council from vacating the premises for five years after the project completion date.

NOTE 13: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2019 and 2018 are \$0 and \$144,240, respectively. Net assets with donor restrictions at June 30, 2018 were restricted for replacement of the roof and capital improvements.

Net assets released from restriction by incurring expenses satisfying the restricted purpose for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Satisfaction of purpose restrictions	\$ 149,438	\$ 8,260

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 14: SUBSEQUENT EVENTS

The Literacy Council has evaluated subsequent events through March 31, 2020, the date on which the financial statements were available to be issued.

The Literacy Council was awarded a Community Development Block Grant on July 1, 2019, by the County of Delaware. Funds up to \$145,000 will be provided for building renovations, specifically renovations of dormers, window replacement, stucco replacement and related site restoration, at the Council's building located in Chester. The terms of the grant require the Literacy Council to not dispose of or convert the building's use for a period of five years from the closeout date of the grant.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Delaware County Literacy Council
Chester, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Delaware County Literacy Council (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon March 31, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Delaware County Literacy Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Delaware County Literacy Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Delaware County Literacy Council's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Delaware County Literacy Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Brinker Simpson & Company, LLC
Springfield, Pennsylvania
March 31, 2020



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Delaware County Literacy Council
Chester, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Delaware County Literacy Council's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Delaware County Literacy Council's major federal program for the year ended June 30, 2019. Delaware County Literacy Council's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Delaware County Literacy Council's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).i Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Delaware County Literacy Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Delaware County Literacy Council's compliance.

Opinion on Each Major Federal Program

In our opinion Delaware County Literacy Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on the major federal program is not modified with respect to these matters.

Delaware County Literacy Council's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Delaware County Literacy Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Delaware County Literacy Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Delaware County Literacy Council's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Delaware County Literacy Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brinker Simpson & Company, LLC

Brinker Simpson & Company, LLC
Springfield, Pennsylvania
March 31, 2020

**DELAWARE COUNTY LITERACY COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	DEPT	Pass Through Grantor Number	Grant Period	Federal CFDA Number	Accrued or (Deferred) Revenue at July 1, 2018	Revenue Recognized	Federal Expenditures	Accrued or (Deferred) Revenue June 30, 2019	Passed Through to Sub-recipients
U.S. Department of Housing and Urban Development (HUD)									
Passed through the County of Delaware									
Community Development Block Grant for Roof Repair and Replacement	DCOHCD	CDBG- 4388A	07/01/2017 - 06/30/2018	14.218	\$ 102,968	\$ 102,968	\$ 102,968	\$ -	\$ -
Community Development Block Grant for Roof Repair and Replacement	DCOHCD	CDBG- 4388A	07/01/2018 - 06/30/2019	14.218		6,695	6,695	-	-
Total CFDA #14.218					<u>102,968</u>	<u>109,663</u>	<u>109,663</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development (HUD)					<u>102,968</u>	<u>109,663</u>	<u>109,663</u>	<u>-</u>	<u>-</u>
U.S. Department of Labor (DOL)									
Passed through the County of Delaware									
WIA/WIOA Dislocated Worker Formula Grants	DCWDB	Contract#LIT.IMM.18	07/01/2018 - 06/30/2019	17.278	-	90,804	90,804	-	-
Total CFDA #17.278					<u>-</u>	<u>90,804</u>	<u>90,804</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Labor (DOL)					<u>-</u>	<u>90,804</u>	<u>90,804</u>	<u>-</u>	<u>-</u>
U.S. Department of Education (ED)									
Passed through Pennsylvania Department of Education									
Adult Education--Basic Grants to States	PDE	PDE Grant 061	07/01/2018 - 06/30/2019	84.002A	-	237,677	237,677	-	-
Adult Education--Basic Grants to States	PDE	PDE Grant 064	07/01/2018 - 06/30/2019	84.002A	-	421,971	421,971	-	-
Total CFDA #84.002A					<u>-</u>	<u>659,648</u>	<u>659,648</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Education (ED)					<u>-</u>	<u>659,648</u>	<u>659,648</u>	<u>-</u>	<u>-</u>
U.S. Department of Health and Human Services (HHS)									
Passed through the County of Delaware									
Temporary Assistance for Needy Families (TANF)	DCWDB	Contract#LIT.0018.EARN yr.2	07/01/2018 - 06/30/2019	93.558	-	22,000	22,000	-	-
Total CFDA #93.558					<u>-</u>	<u>22,000</u>	<u>22,000</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Health and Human Services (HHS)					<u>-</u>	<u>22,000</u>	<u>22,000</u>	<u>-</u>	<u>-</u>
Total					<u>\$ 102,968</u>	<u>\$ 882,115</u>	<u>\$ 882,115</u>	<u>\$ -</u>	<u>\$ -</u>

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (“the Schedule”) includes the federal grant activity of the Delaware County Literacy Council under the programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Delaware County Literacy Council, it is not intended to, and does not, present the financial position, activities, changes in net assets, functional expenses or cash flows of the Delaware Literacy Council.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles obtained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3: INDIRECT COST RATE

Delaware County Literacy Council has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**DELAWARE COUNTY LITERACY COUNCIL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2019**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued (unmodified, qualified, adverse, or disclaimer):

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor’s report issued on compliance for major programs (*unmodified, qualified, adverse, or disclaimer*):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

 X Yes No

Identification of major program:

CFDA Number

Name of Federal Program or Cluster

84.002

Adult Education – Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

**DELAWARE COUNTY LITERACY COUNCIL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2019**

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS

None.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS – CURRENT YEAR

Federal Program: Adult Education – Basic Grants to States
Federal Agency: U.S. Department of Education
Pass-Through Entity: Pennsylvania Department of Education
CFDA Number: 84.002

Finding 2019-001: Unapproved computer costs charged to grants

Criteria: Delaware County Literacy Council (DCLC) has grants from the Division of Adult Education of the Pennsylvania Department of Education (PDE). Under the PDE's Adult Education and Family Literacy Guidelines Program Year 2018-19, when a recipient anticipates moving greater than 10 percent of the approved budget between Object Codes or Function Codes, they are required to submit a budget revision. Requests for budget revisions must be submitted and approved by PDE prior to implementation. DCLC moved costs between codes and charged unapproved computer costs to contracts.

Condition: During a monitoring visit by the PDE, it was discovered that additional computers had been purchased and charged to the IELCE and Adult Basic Education Direct Service grants without permission. Our audit findings concur with this finding.

Questioned Costs: \$7,448.58 of unapproved computer costs.

Cause: Budget revisions were not prepared because the Executive Director did not think the moving of funds between Object and Function codes would amount to greater than 10%.

Effect: The unapproved additional computer costs in the amount of \$7,448.58 were disallowed by the PDE. This amount was returned to PDE.

Recommendation: We recommend that the Executive Director develop a system of monitoring actual grant expenses to budgeted expenses on a frequent interim basis. We recommend that a budget change form be developed and used to request approval for budget revisions.

Management Response: See Management Response on Page 27.

**DELAWARE COUNTY LITERACY COUNCIL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2019**

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS – CURRENT YEAR

Finding 2019-002: Organization does not have a specific allocation basis for certain costs shared among different grants.

Criteria: Under the U.S. Code of Federal Regulations (CFR), Title 2: Grants and Agreements, PART 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E - Cost Principles Sec. 200.405 Allocable Costs - the cost must be allocated to the grants/projects based on the proportional benefit. If a cost benefits two or more grants/projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, the costs may be allocated or transferred to benefitted projects on a reasonable documented basis.

Condition: During our audit, as well as during a monitoring visit by PDE, it was discovered that certain expenses were allocated to grants on an undocumented basis. Our finding concurs with the finding of the PDE's monitoring visit.

Questioned Costs: None

Cause: Certain expenses were evenly allocated to several grants, with no documented basis for the allocation.

Effect: DCLC is not in compliance with 2 CFR Sec. 200.405 - Allocable Costs.

Recommendation: We recommend that DCLC prepare written supported allocation calculations for all direct and indirect costs that benefit two or more grants or programs.

Management Response: See Management Response on Page 27.

Corrective Action Plan Summary

In response to the monitoring visit and subsequent issuance of findings by the Pennsylvania Department of Education (PDE), DCLC has created a Corrective Action Plan to address those findings. This Corrective Action Plan was approved by the Pennsylvania Department of Education, has been implemented by DCLC staff, and is expected to be completed by June 30, 2020.

Finding 1

With the new programming for this fiscal year DCLC estimates related to equipment needs required adjustment and we did not have a process to ensure formal approval to reallocate budgeted funds in excess of 10% was obtained prior to making the related purchases, resulting in the 2% spend in excess of allowed threshold. The funds have been repaid and a new policy has been created to ensure the Executive director obtains approval in advance of any necessary reallocations of budgeted funds. Additionally, the Executive Director and Board of Directors continue to review monthly financial performance and projections to identify the need for a budget reallocation in a timely manner. This corrective action plan has been implemented.

Finding 2

With the increased programming received in this fiscal year a formalized cost allocation policy was necessary to document the methodology being used where costs were incurred in support of multiple programs. Although a process was being followed under the supervision of the Executive Director, it was not documented. DCLC has adopted a formal cost allocation policy that has been approved by the Board of Directors. The Executive Director will ensure continued adherence to the policy through the monthly review of financial performance. This action is complete.

**DELAWARE COUNTY LITERACY COUNCIL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2019**

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

The Organization's expenditures of Federal awards did not exceed \$750,000 for the year ended June 30, 2018. An audit in accordance with U.S. Code of Federal Regulations, Title 2, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards was not required.