

**THE LITERACY ALLIANCE, INC.**

**FORT WAYNE, INDIANA**

**Financial Statements**

**as of August 31, 2021 and 2020**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
The Literacy Alliance, Inc.  
Fort Wayne, Indiana

### Opinion

We have audited the accompanying financial statements of The Literacy Alliance, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Literacy Alliance, Inc. as of August 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Literacy Alliance, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Literacy Alliance, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Literacy Alliance, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Literacy Alliance, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Leonard J. Andorfer & Co., LLP*

LEONARD J. ANDORFER & CO., LLP  
Certified Public Accountants  
Fort Wayne, Indiana

November 1, 2021

**THE LITERACY ALLIANCE, INC.**

**Statements of Financial Position**

<b>ASSETS</b>	August 31 2021	August 31 2020
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 408,367	\$ 396,245
Grants and accounts receivable	57,716	34,971
Pledges receivable - current	232,500	15,000
Prepaid expenses	19,259	13,201
Accrued interest receivable	2,273	2,253
Total Current Assets	720,115	461,670
<b>INVESTMENT - COMMUNITY FOUNDATION OF GREATER FORT WAYNE</b>		
	96,027	73,286
<b>PROPERTY AND EQUIPMENT</b>		
Equipment	133,848	120,681
Leasehold improvements	57,634	57,634
Less accumulated depreciation	( 140,528 )	( 121,783 )
Total Property and Equipment (Net)	50,954	56,532
<b>OTHER ASSETS</b>		
Deposits	2,650	2,650
Pledges receivable - non current (net)	180,049	14,599
Total Other Assets	182,699	17,249
<b>TOTAL ASSETS</b>	\$ 1,049,795	\$ 608,737
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 15,374	\$ 13,345
Current portion of long-term liabilities	5,444	5,283
Deferred revenue	17,000	20,010
Total Current Liabilities	37,818	38,638
<b>NONCURRENT LIABILITIES</b>		
Noncurrent portion of long-term liabilities	21,661	107,793
<b>NET ASSETS</b>		
Without donor restrictions	534,120	375,887
With donor restrictions	456,196	86,419
Total Net Assets	990,316	462,306
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 1,049,795	\$ 608,737

The Notes to Financial Statements  
are an integral part of the statements.

**THE LITERACY ALLIANCE, INC.**

**Statements of Activities and Net Assets  
For the Year Ended August 31, 2021**

**(With Comparative Totals for the Year Ended August 31, 2020)**

<b>SUPPORT AND REVENUE</b>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
<b>Support</b>				
Government grants	\$ 326,401	\$	\$ 326,401	\$ 171,500
Foundation grants	293,960	482,299	776,259	403,005
Business contributions	11,022		11,022	8,315
Individual contributions	45,042	1,582	46,624	49,242
Fund raising (net of direct benefit to donors of \$8,015 for 2020)	36,522		36,522	29,052
In-kind support	33,428		33,428	31,536
<b>Revenue</b>				
Investment income	4,533		4,533	4,999
Unrealized investment gain	20,952		20,952	2,004
Program service fees			-	10,476
Loss on disposition of fixed assets			-	( 1,165 )
<b>Net assets released from restrictions</b>				
Restrictions satisfied by payments	114,104	( 114,104 )	-	-
Total Support and Revenue and Net Assets Released from Restrictions	885,964	369,777	1,255,741	708,964
<b>EXPENSES</b>				
<b>Program services</b>	571,047		571,047	528,139
<b>Supporting services</b>				
Management and general	86,560		86,560	68,191
Fund raising	70,124		70,124	44,176
Total Expenses	<u>727,731</u>	<u>-</u>	<u>727,731</u>	<u>640,506</u>
<b>CHANGE IN NET ASSETS</b>	158,233	369,777	528,010	68,458
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>375,887</u>	<u>86,419</u>	<u>462,306</u>	<u>393,848</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 534,120</u>	<u>\$ 456,196</u>	<u>\$ 990,316</u>	<u>\$ 462,306</u>

The Notes to Financial Statements  
are an integral part of the statements.

**THE LITERACY ALLIANCE, INC.**

**Statements of Activities and Net Assets  
For the Year Ended August 31, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>
<b>SUPPORT AND REVENUE</b>			
<b>Support</b>			
Government grants	\$ 171,500	\$	\$ 171,500
Foundation grants	303,406	99,599	403,005
Business contributions	8,315		8,315
Individual contributions	43,050	6,192	49,242
Fund raising (net of direct benefit to donors of \$8,015)	29,052		29,052
In-kind support	31,536		31,536
<b>Revenue</b>			
Investment income	4,999		4,999
Unrealized investment gain	2,004		2,004
Program service fees	10,476		10,476
Loss on disposition of fixed assets	( 1,165 )		( 1,165 )
<b>Net assets released from restrictions</b>			
Restrictions satisfied by payments	<u>80,899</u>	( <u>80,899</u> )	<u>-</u>
Total Support and Revenue and Net Assets Released from Restrictions	684,072	24,892	708,964
 <b>EXPENSES</b>			
<b>Program services</b>	528,139		528,139
<b>Supporting services</b>			
Management and general	68,191		68,191
Fund raising	44,176		44,176
Total Expenses	<u>640,506</u>	<u>-</u>	<u>640,506</u>
 <b>CHANGE IN NET ASSETS</b>	43,566	24,892	68,458
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>332,321</u>	<u>61,527</u>	<u>393,848</u>
 <b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 375,887</u></u>	<u><u>\$ 86,419</u></u>	<u><u>\$ 462,306</u></u>

The Notes to Financial Statements  
are an integral part of the statements.

**THE LITERACY ALLIANCE, INC.**  
**Statement of Functional Expenses**  
**For the Year Ended August 31, 2021**  
**(With Comparative Totals for the Year Ended August 31, 2020)**

	Program Services	Supporting Services Management and General	Fund Raising	2021 Total Expenses	2020 Total Expenses
Salaries	\$ 356,982	\$ 61,760	\$ 30,955	\$ 449,697	\$ 369,956
Payroll taxes	28,219	5,019	2,621	35,859	31,958
Staff development	6,361	1,312	720	8,393	4,438
Workmens comp/medical insurance	13,857	485	2,163	16,505	3,001
Total Employee Expenses	<u>405,419</u>	<u>68,576</u>	<u>36,459</u>	<u>510,454</u>	<u>409,353</u>
Instruction				-	1,000
Resource material	15,010			15,010	13,647
Advertising and promotion	5,630	441	1,042	7,113	7,927
Professional services	23,939	5,858	5,227	35,024	61,905
Supplies	9,155	1,348	1,406	11,909	4,112
Telephone	3,119	415	624	4,158	4,431
Postage and shipping	2,031	263	1,381	3,675	2,493
Insurance	2,692	359	538	3,589	5,516
Occupancy	54,849	4,890	7,172	66,911	67,500
Equipment rental and maintenance	12,646	1,669	2,615	16,930	15,211
Travel	155	3		158	126
Printing and publications	4,751	611	6,876	12,238	8,682
Dues and subscriptions	3,133	479	1,214	4,826	3,467
Student expense	13,744			13,744	11,983
Special events	112	15	3,120	3,247	10,937
Total Before Depreciation	<u>556,385</u>	<u>84,927</u>	<u>67,674</u>	<u>708,986</u>	<u>628,290</u>
Depreciation	14,662	1,633	2,450	18,745	20,231
Total Expenses by Function	<u>571,047</u>	<u>86,560</u>	<u>70,124</u>	<u>727,731</u>	<u>648,521</u>
Less expenses included with support on the statement of activities				-	( 8,015 )
Total Expenses	<u><u>\$ 571,047</u></u>	<u><u>\$ 86,560</u></u>	<u><u>\$ 70,124</u></u>	<u><u>\$ 727,731</u></u>	<u><u>\$ 640,506</u></u>

The Notes to Financial Statements  
are an integral part of the statements.

**THE LITERACY ALLIANCE, INC.**  
**Statement of Functional Expenses**  
**For the Year Ended August 31, 2020**

	Program Services	Supporting Services		Total Expenses
		Management and General	Fund Raising	
Salaries	\$ 314,962	\$ 38,712	\$ 16,282	\$ 369,956
Payroll taxes	26,661	3,940	1,357	31,958
Staff development	4,016	169	253	4,438
Workmens comp/medical insurance	2,251	300	450	3,001
Total Employee Expenses	347,890	43,121	18,342	409,353
Instruction	1,000			1,000
Resource material	13,647			13,647
Advertising and promotion	5,945	793	1,189	7,927
Professional services	40,760	11,126	10,019	61,905
Supplies	2,887	700	525	4,112
Telephone	3,323	443	665	4,431
Postage and shipping	985	1,311	197	2,493
Insurance	4,196	481	839	5,516
Occupancy	55,188	4,962	7,350	67,500
Equipment rental and maintenance	11,483	1,491	2,237	15,211
Travel	126			126
Printing and publications	4,925	1,928	1,829	8,682
Dues and subscriptions	2,550	434	483	3,467
Student expense	11,983			11,983
Special events	5,132	513	5,292	10,937
Total Before Depreciation	512,020	67,303	48,967	628,290
Depreciation	16,119	888	3,224	20,231
Total Expenses by Function	528,139	68,191	52,191	648,521
Less expenses included with support on the statement of activities			( 8,015 )	( 8,015 )
Total Expenses	\$ 528,139	\$ 68,191	\$ 44,176	\$ 640,506

The Notes to Financial Statements  
are an integral part of the statements.

**THE LITERACY ALLIANCE, INC.**

**Statements of Cash Flows**

	Year Ended August 31	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 528,010	\$ 68,458
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities</b>		
Depreciation	18,745	20,231
Unrealized investment gain	( 20,952 )	( 2,004 )
Loss on disposition of fixed assets	-	1,165
PPP loan forgiveness	( 80,200 )	-
Decrease (increase) in grants and accounts receivable	( 22,745 )	7,899
Increase in pledges receivable	( 382,950 )	( 29,599 )
Increase in prepaid expenses	( 6,058 )	( 8,801 )
Decrease (increase) in accrued interest receivable	( 20 )	633
Increase in accounts payable and accrued expenses	2,029	6,820
Decrease in deferred revenue	( 3,010 )	( 16,130 )
Net Cash Provided by Operating Activities	32,849	48,672
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	( 13,167 )	-
Increase in investments	( 1,789 )	( 2,152 )
Net Cash Used For Investing Activities	( 14,956 )	( 2,152 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from note payable	-	80,200
Payments on leasehold obligation	( 5,771 )	( 5,360 )
Net Cash Provided By (Used For) Financing Activities	( 5,771 )	74,840
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	12,122	121,360
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	396,245	274,885
<b>CASH AND CASH EQUIVALENTS- END OF YEAR</b>	\$ 408,367	\$ 396,245

The Notes to Financial Statements  
are an integral part of the statements.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies

**Nature of Activities** – The Literacy Alliance’s mission is “to end illiteracy by teaching adults through learning centers, literacy programs and tutoring services that empower individuals to succeed at work, at home and in the community.” In support of its mission, the organization provides instruction for adults through community-based high school equivalency (HSE) learning centers, pre-HSE classes held in internet-connected computer labs, small groups working on pre-reading skills and English for Speakers of Other Languages (ESOL) classes. The organization provides job certification training and career advising in its HSE classrooms and collaborates with local schools and community organizations to provide on-site instruction and mutual referrals. The Literacy Alliance places a family library in each new Habitat for Humanity home at the time of dedication. Volunteers are an essential part of the instruction team in all program areas.

**Basis of Presentation** - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Financial Statement Presentation** – Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of The Literacy Alliance, Inc. and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions** – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

**Net Assets With Donor Restrictions** – These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

**Revenue Recognition** – The Organization recognizes revenue from the following sources:

**Contributions and Grants:** The Organization recognizes support when received or unconditionally promised. Grants and contracts are classified as contributions in instances in which a resource provider is not itself receiving commensurate value for the resources provided. Contributions are considered conditional when the agreement with the resource provider includes a barrier that must be overcome and either a right of return of assets transferred or right of release of a promisor’s obligation to transfer assets. Conditional contributions are not recognized as revenue until the conditions are substantially met.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

#### Revenue Recognition (Continued) –

**Program Service Fees:** The Organization recognizes revenue from direct billed educational services when the related educational services are provided. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization did not receive any cost-reimbursable grants that have not been recognized at August 31, 2021 and 2020, and therefore no amount is recognized in the statement of financial position as a refundable grant for these contracts and grants.

**Special Events and Sponsorships:** The Organization has multiple special events where tickets are purchased for the event and revenue is recognized upon the occurrence of the event. In addition, the Organization will sell sponsorships for the events. When a sponsorship is sold, it contains elements of both an exchange transaction and a contribution. The Organization will recognize the contribution portion once received or unconditionally pledged. The portion related to the exchange transaction is recorded as deferred income until the event occurs at which time it is recognized as revenue.

**In-kind Contributions:** Contributions of professional services are recorded at estimated fair value when received if such services require specialized skills, are proved by individuals possessing those skills and would typically need to be purchased if not donated. Volunteers contribute amounts of time to the Organization's activities that do not meet recognition criteria, and the value of that time is not reflected in the financial statements. The Organization also receives the use of facilities used in its programs. The value of the donated facilities amounted to \$22,560 for the years ended August 31, 2021 and 2020. In addition, the Organization received good and services amounting to \$10,868 and \$8,976 for the years ended August 31, 2021 and 2020, respectively.

**Cash and Cash Equivalents** - For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of twelve months or less to be cash equivalents.

**Property and Equipment** - Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Equipment is depreciated using the straight-line method over a period of three to seven years. Leasehold improvements are being depreciated on a straight-line basis over the life of the lease which is ten years.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

**Functional Expenses** – The cost of providing the program and other activities has been summarized on a functional basis in the accompanying statements of activities and changes in net assets. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, certain professional services, supplies, information technology, insurance and other expenses, which are allocated on the basis of time and effort.

**Income Taxes** - The Literacy Alliance, Inc. is a nonprofit Organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the 60% charitable contribution limitation. The CARES Act has temporarily allowed a 100% charitable contribution limitation for the calendar year 2020. The organization has adopted FASB ASC 740-10-25 and determined no material unrecognized tax benefits or liabilities exist as of August 31, 2021. The adoption of FASB ASC 740-10-25 did not impact the organization's financial position or results of operations. If applicable, the Organization will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of August 31, 2021, the Organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Organization does not anticipate any significant changes to unrecognized income tax benefits over the next year. The Organization is generally no longer subject to examination by federal and state agencies for years ended before August 31, 2018.

**Advertising Costs** - Advertising and promotional programs are charged to expense during the period in which they are incurred.

**Compensated Absences** - The Organization's employee base is made up of full-time and part-time employees. No liability for compensated absences has been recorded in the financial statements. Any liability that may exist is deemed immaterial.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Deferred Revenue** – The Organization has recorded deferred revenue in connection with a fund-raising event that will take place in a subsequent year. Deferred revenue amounted to \$17,000 and \$20,010 as of August 31, 2021 and 2020, respectively.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

**Recent Accounting Pronouncements** – In February 2016, the FASB issued ASU 2016-2-Leases. The standard will increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The standard is effective for the organization beginning September 1, 2022 and is currently being evaluated to determine the impact on the financial statements.

### NOTE 2 - Grants and Accounts Receivable

The Literacy Alliance, Inc. incurs expenses and then submits requests for reimbursement by third-party grantors. The reimbursement requests are reviewed by the grantor, taking into consideration the purpose of the expenditures, the amount of the original grant and the provisions set forth. Grants receivable under these terms amounted to \$56,216 and \$29,971 as of August 31, 2021 and 2020, respectively. In addition, the Organization had miscellaneous accounts receivable of \$1,500 and \$5,000 as of August 31, 2021 and 2020, respectively. All grants and accounts receivable are considered by the Organization to be fully collectible.

### NOTE 3 - Off-Balance Sheet Risk

The Organization maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At August 31, 2021 and 2020, the Organization had no uninsured cash balances.

### NOTE 4 - Concentrations

Grants from a single donor amounted to \$200,000 and \$256,399 for the years ended August 31, 2021 and 2020, respectively. This amounted to 22.78% and 37.74% of total support and revenue for the years ended August 31, 2021 and 2020, respectively. Were it to occur, a significant reduction in this funding may have a major effect on the operations of the Organization.

### NOTE 5 – Pledges Receivable

Pledges receivable at August 31, 2021 are unconditional promises to give detailed as follows:

	2021	2020
Pledges receivable in less than one year	\$ 232,500	\$ 15,000
Pledges receivable in one to five years	185,000	15,000
Pledges receivable in five to ten years	417,500	30,000
Less: present value discount	4,951	401
Net Pledges Receivable	<u>\$ 412,549</u>	<u>\$ 29,599</u>

Pledges have been recorded using a discount rate of 2.75% for the fiscal year ended August 31, 2021 and 2020.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 – Line of Credit

The Organization has obtained a short-term line of credit from Star Financial Bank in the amount of \$75,000. The note calls for interest at a rate of prime plus .75%, is secured by substantially all of the Organization's assets and is due on January 1, 2022. There was no balance due on this line of credit as of August 31, 2021 or 2020.

### NOTE 7 - Leases

On November 1, 2015, the organization entered into a lease commencing March 1, 2016 for a period of ten years. The lease was amended in June 2021 to increase the amount of office space leased effective October 1, 2021. The amended lease is at a rate of \$3,431 per month for the first six months with increases on an annual basis tied to the increase in the consumer price index. Future minimum lease payments over the next five years of the lease are estimated as follows:

<u>Year</u>	<u>Amount</u>
August 31, 2022	\$ 40,494
August 31, 2023	42,420
August 31, 2024	43,266
August 31, 2025	44,130
August 31, 2026	22,284

### NOTE 8 – Notes Payable

On April 17, 2020 the Organization secured a note with Star Financial Bank under the provisions of the Paycheck Protection Program in the amount of \$80,200. The loan bore interest at 1% with no interest due for the first six months. The loan matures in March 2022. In January 2021 the loan was forgiven in full and the amount was recognized as government grants on the statement of activities and net assets.

### NOTE 9 – Leasehold Obligation

In connection with the lease executed in Note 7, the Organization agreed to reimburse the landlord for leasehold improvements made to the leased facility. The total amount of the improvements was \$57,634 and the amount is being repaid at \$557/month including interest at a rate of 3% over a ten-year period. The remaining balance amounted to \$27,105 and \$32,876 as of August 31, 2021 and 2020, respectively. Principal payments over the next five years are as follows:

<u>Year</u>	<u>Amount</u>
August 31, 2022	\$ 5,444
August 31, 2023	6,112
August 31, 2024	6,298
August 31, 2025	6,489
August 31, 2026	2,762

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 – Net Assets with Donor Restrictions

Net assets with donor restrictions result from non-reimbursement type grants in which the specifically stated grant terms do not coincide with the organization’s fiscal year or are specifically for future periods.

A reconciliation of net assets with donor restrictions follows:

	Balance 8/31/2020	Additions	Reductions	Balance 8/31/2021
Operating grants - future periods	\$ 61,266	\$ 462,549	\$ 84,599	\$ 439,216
Organizational development	2,936		2,936	-
Restricted donations - scholarships	1,775	9,332	1,377	9,730
H.S.E. operations	9,250	12,000	14,000	7,250
Asset acquisition	11,192		11,192	-
	\$ 86,419	\$ 483,881	\$ 114,104	\$ 456,196

### NOTE 11 - Investment - Community Foundation of Greater Fort Wayne

During the fiscal year ended August 31, 2006, the Board of Directors made a contribution of \$50,000 to the Community Foundation of Greater Fort Wayne. The Foundation has final discretion on the investment and reinvestment of the assets which are held in a pooled fund. Proportional investment earnings less customary and usual fees will either be distributed to The Literacy Alliance, Inc. or added to the fund principal according to the terms of the agreement. As of August 31, 2021 and 2020, the balance in the Foundation amounted to \$96,027 and \$73,286, respectively.

Additionally, the Community Foundation of Greater Fort Wayne holds investment assets with a value of \$41,557 and \$30,564 as of August 31, 2021, and 2020, respectively, for the benefit of the Organization for which they have retained variance power. These investments are not recorded as assets of the Organization.

Net investment income includes interest on deposit accounts and consisted of the following:

	2021	2020
Interest income	\$ 4,733	\$ 4,951
Realized gains	217	401
Unrealized gains	20,952	2,004
Investment management fees (	417 )	( 353 )
	\$ 25,485	\$ 7,003

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 12 – Retirement Plan

The Organization has adopted an Internal Revenue Code 403(b) retirement savings plan for substantially all employees. All contributions to the plan are made by the employees through salary deferrals. The plan does not provide for contributions from The Literacy Alliance.

### NOTE 13 – Fair Value of Financial Instruments

FASB ASC 820-10-50-1 requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by The Literacy Alliance, Inc. impacted by this pronouncement include the investments held at market value.

FASB ASC 820-10-50-1 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of input described below:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair value of financial instruments as of August 31, 2021 is as follows:

	Quoted market prices for identical assets <u>Level 1</u>	Significant other observable inputs <u>Level 2</u>	Significant unobservable inputs <u>Level 3</u>
Community Foundation of Greater Fort Wayne	<u>\$</u>	<u>\$</u>	<u>\$ 96,027</u>

Fair value of financial instruments as of August 31, 2020 is as follows:

	Quoted market prices for identical assets <u>Level 1</u>	Significant other observable inputs <u>Level 2</u>	Significant unobservable inputs <u>Level 3</u>
Community Foundation of Greater Fort Wayne	<u>\$</u>	<u>\$</u>	<u>\$ 73,286</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 13 – Fair Value of Financial Instruments (Continued)

The table below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended August 31, 2021 and 2020:

	2021	2020
	Unobservable	Unobservable
	<u>Inputs (Level 3)</u>	<u>Inputs (Level 3)</u>
Beginning Balance - September 1	\$ 73,286	\$ 69,130
Total gains or losses (realized/unrealized) included in earnings:		
Interest and dividend income on securities	1,989	2,104
Unrealized gains	20,952	2,004
Realized gain on sale of securities	217	401
Investment fees	( 417 )	( 353 )
Transfers out		-
Ending Balance - August 31	<u>\$ 96,027</u>	<u>\$ 73,286</u>

### NOTE 14 – Liquidity and Availability of Financial Assets

The following reflects the financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the board-approved appropriation from the endowment fund for the following year as well as donor-restricted amounts that are available for expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the board approves that action.

	2021	2020
Cash and cash equivalents	\$ 408,367	\$ 396,245
Accounts and grants receivable, net, collected in less than one year	57,716	34,971
Pledges receivable, net, collected in less than one year	<u>232,500</u>	<u>15,000</u>
Total financial assets, excluding noncurrent receivables	698,583	446,216
Contractual or donor-imposed restrictions:		
Other donor restrictions	( 456,196 )	( 86,419 )
Add back: amounts available for donor-specified expenditures in following year	<u>239,750</u>	<u>55,516</u>
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u>\$ 482,137</u>	<u>\$ 415,313</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 15 – Subsequent Events

On September 1, 2021, the Organization received as a contribution the assets of Project READS, which was previously a separate not-for-profit agency in Fort Wayne, Indiana. From September 1, 2021 on, Project READS will be a program of The Literacy Alliance. The contribution is expected to amount to approximately \$140,000 in total.

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 1, 2021, the date the financial statements were available to be issued. The Organization is monitoring the COVID-19 outbreak in the United States and throughout the world for impacts to its operations. Public health organizations are providing daily updates on changes to be made, including closures in certain industries. The length of the outbreak is uncertain at this time and therefore, the impact on the Organization's financial condition and results of its operations is unknown.