

Seeds of Literacy

Financial Statements and
Independent Auditor's Report

June 30, 2017 and 2016

Seeds of Literacy

Financial Statements June 30, 2017 and 2016

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Independent Auditor's Report

Seeds of Literacy
3104 West 25th Street, 3rd Floor
Cleveland, Ohio 44109

To the Board of Directors:

We have audited the accompanying financial statements of Seeds of Literacy (the Organization) which comprise the statements of financial position as of June 30, 2017 and 2016, 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. 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 includes 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 of 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 Seeds of Literacy as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Apple Growth Partners

Akron, Ohio
October 31, 2017

Seeds of Literacy Statement of Financial Position

For the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 412,829	\$ 29,083	\$ 441,912
Grants and contributions receivable	12,329	35,000	47,329
Prepaid expenses	5,577	-	5,577
Total current assets	430,735	64,083	494,818
Property and equipment, net	51,382	-	51,382
	\$ 482,117	\$ 64,083	\$ 546,200
LIABILITIES			
Current liabilities			
Accounts payable	\$ 27,423	\$ -	\$ 27,423
Accrued wages and benefits	12,680	-	12,680
Total current liabilities	40,103	-	40,103
NET ASSETS	442,014	64,083	506,097
	\$ 482,117	\$ 64,083	\$ 546,200

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

Seeds of Literacy Statement of Financial Position

For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 301,164	\$ 20,603	\$ 321,767
Grants and contributions receivable	43,396	20,000	63,396
Prepaid expenses	6,272	-	6,272
Total current assets	<u>350,832</u>	<u>40,603</u>	<u>391,435</u>
Property and equipment, net	<u>47,359</u>	<u>-</u>	<u>47,359</u>
	<u>\$ 398,191</u>	<u>\$ 40,603</u>	<u>\$ 438,794</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 22,870	\$ -	\$ 22,870
Accrued wages and benefits	11,856	-	11,856
Total current liabilities	<u>34,726</u>	<u>-</u>	<u>34,726</u>
NET ASSETS	<u>363,465</u>	<u>40,603</u>	<u>404,068</u>
	<u>\$ 398,191</u>	<u>\$ 40,603</u>	<u>\$ 438,794</u>

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

Seeds of Literacy Statement of Activities

For the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Grants, gifts, and contributions	\$ 507,895	\$ 272,000	\$ 779,895
Donated services	17,200	-	17,200
Donated supplies and materials	6,871	-	6,871
Special events, net	112,647	-	112,647
Other	10,232	-	10,232
Total support and revenue	<u>654,845</u>	<u>272,000</u>	<u>926,845</u>
Net assets released from restrictions	248,520	(248,520)	-
Expenses			
Program	683,899	-	683,899
Management and general	66,512	-	66,512
Fundraising	74,405	-	74,405
	<u>824,816</u>	<u>-</u>	<u>824,816</u>
Change in net assets	78,549	23,480	102,029
Net assets, beginning of year	<u>363,465</u>	<u>40,603</u>	<u>404,068</u>
Net assets, end of year	<u>\$ 442,014</u>	<u>\$ 64,083</u>	<u>\$ 506,097</u>

Seeds of Literacy Statement of Activities

For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Grants, gifts, and contributions	\$ 546,946	\$ 40,000	\$ 586,946
Donated services	26,700	-	26,700
Donated supplies and materials	6,074	-	6,074
Special events, net	70,358	-	70,358
Other	6	-	6
Total support and revenue	<u>650,084</u>	<u>40,000</u>	<u>690,084</u>
Net assets released from restrictions	206,647	(206,647)	-
Expenses			
Program	565,273	-	565,273
Management and general	86,915	-	86,915
Fundraising	58,637	-	58,637
	<u>710,825</u>	<u>-</u>	<u>710,825</u>
Change in net assets	145,906	(166,647)	(20,741)
Net assets, beginning of year	<u>217,559</u>	<u>207,250</u>	<u>424,809</u>
Net assets, end of year	<u>\$ 363,465</u>	<u>\$ 40,603</u>	<u>\$ 404,068</u>

Seeds of Literacy
Statement of Functional Expenses

	For the year ended June 30, 2017			
	Program	Management and General	Fundraising	Total Expenses
Personnel	\$ 383,634	\$ 47,954	\$ 47,954	\$ 479,542
Employee benefits	47,888	5,986	5,986	59,860
Program support	27,917	-	-	27,917
Program supplies	54,822	-	-	54,822
Occupancy	83,356	9,807	4,903	98,066
Donated services	14,362	1,118	1,720	17,200
Travel and meals	7,873	-	-	7,873
Equipment	8,519	-	-	8,519
Telephone	19,109	503	503	20,115
Workshops and training	12,605	-	-	12,605
Public relations	-	-	9,765	9,765
Office supplies	144	108	108	360
Postage	-	120	-	120
Legal and accounting	10,000	-	-	10,000
Miscellaneous	2,729	-	-	2,729
Dues and subscriptions	1,062	299	299	1,660
Bank service charges	-	-	1,315	1,315
Depreciation	9,879	617	1,852	12,348
	\$ 683,899	\$ 66,512	\$ 74,405	\$ 824,816

Seeds of Literacy

Statement of Functional Expenses

	For the year ended June 30, 2016			
	Program	Management and General	Fundraising	Total
Personnel	\$ 334,914	\$ 50,237	\$ 33,491	\$ 418,642
Employee benefits	43,186	5,398	5,398	53,982
Program support	15,186	1,898	1,898	18,982
Program supplies	22,336	-	-	22,336
Occupancy	66,652	12,497	4,166	83,315
Donated services	26,700	-	-	26,700
Travel and meals	6,479	360	360	7,199
Equipment	8,613	479	479	9,571
Telephone	21,504	1,195	1,195	23,894
Workshops and training	10,539	-	-	10,539
Public relations	-	-	9,936	9,936
Office supplies	318	239	239	796
Postage	-	628	-	628
Legal and accounting	-	7,200	-	7,200
Miscellaneous	-	5,027	-	5,027
Dues and subscriptions	980	528	-	1,508
Bank service charges	-	737	-	737
Depreciation	7,866	492	1,475	9,833
	\$ 565,273	\$ 86,915	\$ 58,637	\$ 710,825

Seeds of Literacy Statements of Cash Flows

	For the years ended June 30,	
	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 102,029	\$ (20,741)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	12,348	9,833
Changes in operating assets and liabilities:		
Grants and contributions receivable	16,067	46,442
Prepaid expenses	695	(4,327)
Accounts payable	4,553	9,882
Accrued expenses	824	(9,844)
Cash provided by operating activities	136,516	31,245
Cash flows from investing activities:		
Cash paid for purchases of fixed assets	(16,371)	(9,757)
Cash used for investing activities	(16,371)	(9,757)
Net increase in cash	120,145	21,488
Cash and cash equivalents beginning of year	321,767	300,279
Cash and cash equivalents end of year	\$ 441,912	\$ 321,767

Seeds of Literacy
Notes to the Financial Statements
June 30, 2017 and 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Seeds of Literacy (the Organization) is an award-winning, innovative adult literacy program that relies on individualized curricula and one-to-one tutoring to help students who did not succeed in traditional school settings. We offer free basic education, digital literacy, and GED® preparation to about 1,000 adults annually with the help of over 250 volunteers. The Organization is open year-round, with open enrollment and weekly registration. Our curriculum is based on two best practices: Common Core State Standards and GED Benchmarks. Seeds is the only nationally accredited literacy program in Ohio.

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting.

Financial Statement Presentation - The Organization adheres to Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) in the manner noted below. In accordance with FASB, the financial statements have been prepared based upon three categories of net assets, as follows:

Unrestricted Net Assets - Net assets that are not subject to donor imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor imposed restrictions that may or will be met, either by action of the Organization and/or the passage of time. When a restriction expires or is substantially met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. As of June 30, 2017 and 2016, the Organization has no permanently restricted net assets.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Revenue recognition - Grants, gifts, and contributions are recorded when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized when conditions on which they depend are substantially met. Unconditional promises to give to be funded in subsequent years are reported at their present value using risk free interest rates applicable to years in which the promises are to be received.

Grants, gifts and contributions recognized in the financial statements are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction

Seeds of Literacy
Notes to Financial Statements
June 30, 2017 and 2016

expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Special event revenues are recognized when the event is held. Contributions received at or related to a special event are recorded as special event revenue in the financial statements.

Donated Services, Supplies, and Materials - Support arising from contributed services, supplies and materials has been recognized in the accompanying financial statements in accordance with ASC No. 958, Not-for-Profit Entities. This accounting guidance requires the fair value of donated services, supplies and materials be recorded in the financial statements at the time of receipt. The fair value of donated services is recognized in the financial statements only if the services create or enhance nonfinancial assets or require a specialized skill, are provided by those possessing the skill, and would need to be purchased if not donated. A requirement for the recording of any donated services, supplies, and materials is the ability to document the receipt and fair value of the donation. Those donated services, supplies, and materials have been reflected in the accompanying financial statements if they met the criteria for recognition.

Functional Expense Allocation - The costs of providing various programs and other activities of the Organization have been summarized in the statement of functional expense. The allocation is based on management's analysis of employee activities and the expenses incurred in operations.

Fair Value of Financial Instruments - The financial statement value (cost) of cash, grants and contributions receivable, and accounts payable approximates fair value because of the short-term nature of the financial instruments.

Fixed Assets - Fixed assets purchased are recorded at cost and those donated are recorded at fair market value at the date of the gift. Upon disposal, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current operations. Expenditures for routine maintenance, repairs, and renewals are charged to expense as incurred. Depreciation is computed on the straight-line method using the following lives for each asset classification:

Software	5 Years
Furniture and equipment	5 Years
Leasehold improvements	15 Years

Tax Status - The Organization is a nonprofit organization that is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Accounting principles generally accepted in the United States of America, require the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. The Organization's management has analyzed the tax positions taken by the Organization and has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken, that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Recent Accounting Pronouncements - From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") and are adopted by the Organization as of the specified effective date. Unless otherwise discussed, the Organization believes the

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Notes to Financial Statements
June 30, 2017 and 2016

impact of recently issued accounting pronouncements either do not apply to the Organization's operations or will not have a material impact on the statements of financial position, statements of activities and changes in net assets, and the statements of cash flows.

In May 2014, the FASB issued an amendment to the accounting guidance for recognition of revenue from contracts with customers. In 2015, the effective date of the new revenue recognition guidance was deferred by one year, making the new guidance effective for private companies for annual periods beginning after December 15, 2018. Early adoption is permitted, but not before annual periods beginning after December 15, 2016. Management is evaluating the impact of this update on the Organization's financial statements.

In 2016, the FASB issued an accounting standard on the presentation of Not-for-Profit Entities. This standard decreases net assets from three to two, enhances disclosures for underwater endowments, changes functional expense reporting, requires disclosure of qualitative information on how it manages its liquid availability and liquidation risks, and eliminates the requirement for those who use the direct method cash flow statement to perform a reconciliation with the indirect method. The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017 and early adoption of the standard is permitted. Management is evaluating the impact of this standard on the organization's financial statements.

In 2016, the FASB issued an update to accounting standards related to the accounting for lease obligations. Under this update, a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. This update is effective for annual periods beginning after December 15, 2019. Management is evaluating the impact of this update on the Organization's financial statements.

Subsequent Events - The Organization has evaluated subsequent events through October 31, 2017, the date that the Organization's annual financial statements were available to be issued. All material events have been disclosed.

Reclassifications - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported financial position or net assets.

B. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable represents amounts promised during the year but not received as of the financial statement date. The Organization projects all amounts receivable will be received in full during the following fiscal year and therefore, no provision for potentially uncollectible amounts or discount for extended payment plans is required. Grants and pledges receivable as of June 30, 2017 and 2016 were \$47,329 and \$63,396, respectively.

C. CONCENTRATIONS OF CREDIT RISK

The Organization deposits the majority of its cash in commercial bank accounts. From time to time, cash balances in the bank accounts may exceed federally insured limits. To date, the Organization has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on its cash accounts.

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Notes to Financial Statements
June 30, 2017 and 2016

D. PROPERTY AND EQUIPMENT

Property and equipment, at cost was comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
Software	\$ 8,265	\$ 9,195
Furniture and equipment	69,912	62,456
Leasehold improvements	<u>24,493</u>	<u>17,895</u>
	102,670	89,546
Less: accumulated depreciation	<u>51,288</u>	<u>42,187</u>
	<u>\$ 51,382</u>	<u>\$ 47,359</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$12,348 and \$9,833, respectively.

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include contributions that continue to be subject to donor-imposed restrictions as of June 30, 2017. These continuing donor restrictions relate to the time period in which the funds can be utilized and/or the purpose for which the funds can be expended. All temporarily restricted net assets are available for use during the year ending June 30, 2018. Temporarily restricted net assets are available for the following purposes:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Released</u>	<u>June 30, 2017</u>
Adult literacy, basic education, and GED preparation	<u>\$ 40,603</u>	<u>\$ 272,000</u>	<u>\$ (248,520)</u>	<u>\$ 64,083</u>

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Released</u>	<u>June 30, 2016</u>
Adult literacy, basic education, and GED preparation	<u>\$ 207,250</u>	<u>\$ 40,000</u>	<u>\$ (206,647)</u>	<u>\$ 40,603</u>

F. DONATED MATERIALS AND SERVICES

The value of donated services, supplies, and material included as support and revenue in the statement of activities and the corresponding program, management and general, and special event expenses for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Legal services	\$ 1,000	\$ 10,500
Accounting and information technology services	16,200	16,200
	<u>\$ 17,200</u>	<u>\$ 26,700</u>
Materials and program supplies	<u>\$ 6,871</u>	<u>\$ 6,074</u>
Special event expenses	<u>\$ 38,111</u>	<u>\$ 46,124</u>

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The Organization utilizes significant volunteer services in the conduct of its programs that do not meet the standards for recognition in the financial statements and; therefore, the fair value of these donated services is not recorded in the accompanying statement of activities.

The following is information regarding donated services not recorded in the financial statements for the years ended June 30, 2017 and 2016:

	2017	2016
Tutor services	\$ 287,008	\$ 269,798
Community service activities	22,550	34,322
Data entry services and other services	110,928	82,220
	<u>\$ 420,486</u>	<u>\$ 386,340</u>

Additionally, services provided by the Organization's Finance Committee, Board of Directors, and general volunteers do not meet the requirements for recording in the financial statements. Therefore, no provision has been made for the fair value of these volunteer services in the financial statements.

G. SPECIAL EVENTS, NET

The Organization hosts various special events for the purposes of promoting its activities, recognizing its supporters, and raising funds. All revenues relating to the events, including donations received at or in conjunction with the events, and charges for materials and services provided at the events, are classified as special event revenue. Expenses relating to the promotion and conduct of the events have been netted with fundraising revenues in the statement of activities. The following is information relating to the events conducted during the years ended June 30, 2017 and 2016:

	2017	2016
Revenue	\$ 178,693	\$ 145,925
Expenses	(66,046)	(75,567)
	<u>\$ 112,647</u>	<u>\$ 70,358</u>

H. EMPLOYEE BENEFITS AND RETIRMENT PLAN

The Organization provides all eligible employees with a retirement plan, health and life insurance coverage, and worker's compensation. The total cost of these employee benefits was \$59,860 and \$53,982 for the years ended June 30, 2017 and 2016, respectively. Included in the cost of employee benefits are contributions to a SIMPLE IRA Plan totaling, \$8,201 and \$8,187 for the years ended June 30, 2017 and 2016, respectively. The organization matches employees' pre-tax deferrals on a dollar-for-dollar basis up to 3%, but not less than 1%.

I. CONCENTRATIONS

Substantially all of the Organization's contributions and annual revenues are derived for a single program purpose. The Organization's operations and revenue generation abilities are concentrated in the vicinity of northeastern Ohio. Two major donors have contributed approximately 29% and 15% of the Organization's grants, gifts and contributions as of June 30, 2017 and 2016, respectively.

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J. OPERATING LEASES

The Organization occupies, pursuant to operating lease agreements, office and classroom space for use in the conduct of its program at a cost of \$5,534 per month. Facilities rental was \$66,709 and \$54,584 for the years ended June 30, 2017 and 2016, respectively.

Minimum future rental payments under the operating lease at June 30, 2017 are as follows:

2018	\$ 66,408
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The Organization leases office equipment for use in its operations. Lease payments totaled \$3,900 and \$4,500 for the years ended June 30, 2017 and 2016, respectively. Future minimum lease payments as of June 30, 2017, are as follows:

2018	\$ 2,400
2019	800
	<u>\$ 3,200</u>