

**THE LITERACY ALLIANCE, INC.
FORT WAYNE, INDIANA**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2024 AND 2023**



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Independent Auditor's Report

To the Board of Directors of
The Literacy Alliance, Inc.

Opinion

We have audited the accompanying financial statements of The Literacy Alliance, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2024, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2024 financial statements referred to above present fairly, in all material respects, the financial position of The Literacy Alliance, Inc. as of August 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Prior Period Financial Statements

The financial statements of The Literacy Alliance, Inc. as of August 31, 2023 were audited by other auditors whose report dated November 2, 2023 expressed an unmodified opinion on those statements.

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.

The Literacy Alliance, Inc.
Independent Auditor's Report, continued

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 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.



Fort Wayne, Indiana
November 14, 2024

The Literacy Alliance, Inc.
Statements of Financial Position
August 31, 2024 and 2023

ASSETS	<u>2024</u>	<u>2023</u>
Current assets:		
Cash	\$ 127,732	\$ 39,872
Certificates of deposit	15,747	194,150
Grants and contributions receivable	348,917	99,744
Other receivables	300	2,277
Prepaid expenses	<u>11,656</u>	<u>14,409</u>
Total current assets	<u>504,352</u>	<u>350,452</u>
Noncurrent assets:		
Beneficial interest in community foundation	111,048	96,059
Grants and contributions receivable, net	167,899	14,599
Property and equipment, net	59,630	69,257
Right-of-use assets, operating leases	<u>64,647</u>	<u>102,847</u>
Total noncurrent assets	<u>403,224</u>	<u>282,762</u>
Total assets	<u>\$ 907,576</u>	<u>\$ 633,214</u>

See accompanying notes

The Literacy Alliance, Inc.
Statements of Financial Position, continued
August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 68,463	\$ 38,061
Current maturities of operating lease liabilities	41,343	38,008
Current maturities of long-term debt	6,489	6,298
Refundable advance	<u>29,064</u>	<u>28,015</u>
Total current liabilities	<u>145,359</u>	<u>110,382</u>
Noncurrent liabilities:		
Operating lease liabilities, net of current maturities	21,883	63,227
Long-term debt, net of current maturities	<u>2,762</u>	<u>9,251</u>
Total noncurrent liabilities	<u>24,645</u>	<u>72,478</u>
Total liabilities	<u>170,004</u>	<u>182,860</u>
Net assets:		
Without donor restrictions	296,478	346,075
With donor restrictions	<u>441,094</u>	<u>104,279</u>
Total net assets	<u>737,572</u>	<u>450,354</u>
Total liabilities and net assets	\$ <u>907,576</u>	\$ <u>633,214</u>

See accompanying notes

The Literacy Alliance, Inc.
Statement of Activities
For the year ended August 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Grants and contributions	\$ 930,061	\$ 425,771	\$ 1,355,832
Contributed nonfinancial assets	21,410	-	21,410
Fundraising events	93,591	-	93,591
Program service fees	101,987	-	101,987
Change in beneficial interest	14,989	-	14,989
Interest income	1,729	-	1,729
Other	(951)	-	(951)
Net assets released from restrictions	<u>88,956</u>	<u>(88,956)</u>	<u>-</u>
 Total support and revenue	 <u>1,251,772</u>	 <u>336,815</u>	 <u>1,588,587</u>
 Expenses:			
Program	1,042,375	-	1,042,375
Management and general	93,814	-	93,814
Fundraising	<u>165,180</u>	<u>-</u>	<u>165,180</u>
 Total expenses	 <u>1,301,369</u>	 <u>-</u>	 <u>1,301,369</u>
 Change in net assets	 (49,597)	 336,815	 287,218
 Net assets – beginning of year	 <u>346,075</u>	 <u>104,279</u>	 <u>450,354</u>
 Net assets – end of year	 <u>\$ 296,478</u>	 <u>\$ 441,094</u>	 <u>\$ 737,572</u>

See accompanying notes

The Literacy Alliance, Inc.
Statement of Activities
For the year ended August 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Grants and contributions	\$ 592,086	\$ 67,946	\$ 660,032
Contributed nonfinancial assets	57,951	-	57,951
Fundraising events	64,034	-	64,034
Program service fees	70,245	-	70,245
Change in beneficial interest	6,009	-	6,009
Interest income	4,028	-	4,028
Other	766	-	766
Net assets released from restrictions	215,004	(215,004)	-
	<u>1,010,123</u>	<u>(147,058)</u>	<u>863,065</u>
Total support and revenue			
Expenses:			
Program	935,358	-	935,358
Management and general	97,203	-	97,203
Fundraising	147,305	-	147,305
	<u>1,179,866</u>	<u>-</u>	<u>1,179,866</u>
Total expenses			
Change in net assets	(169,743)	(147,058)	(316,801)
Net assets – beginning of year	<u>515,818</u>	<u>251,337</u>	<u>767,155</u>
Net assets – end of year	<u>\$ 346,075</u>	<u>\$ 104,279</u>	<u>\$ 450,354</u>

See accompanying notes

The Literacy Alliance, Inc.
Statement of Functional Expenses
For the year ended August 31, 2024

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 694,048	\$ 69,242	\$ 79,476	\$ 842,766
Payroll taxes	56,433	5,406	6,373	68,212
Employee benefits	39,112	3,952	6,505	49,569
	<u>789,593</u>	<u>78,600</u>	<u>92,354</u>	<u>960,547</u>
Advertising and promotion	8,445	433	867	9,745
Depreciation	20,512	1,085	2,413	24,010
Dues and subscriptions	5,036	1,289	583	6,908
Insurance	5,044	298	593	5,935
Meals and catering	-	-	20,145	20,145
Postage	2,267	133	1,728	4,128
Printing	9,118	528	3,742	13,388
Professional services	29,601	5,454	23,163	58,218
Rental and maintenance, building	65,369	3,232	12,863	81,464
Rental and maintenance, equipment	19,372	1,093	2,187	22,652
Staff and board development	11,312	1,066	1,785	14,163
Student expense	68,730	15	29	68,774
Supplies	2,803	300	2,162	5,265
Telephone	4,794	282	564	5,640
Travel	379	6	2	387
	<u>\$ 1,042,375</u>	<u>\$ 93,814</u>	<u>\$ 165,180</u>	<u>\$ 1,301,369</u>

See accompanying notes

The Literacy Alliance, Inc.
Statement of Functional Expenses
For the year ended August 31, 2023

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 581,931	\$ 71,248	\$ 67,145	\$ 720,324
Payroll taxes	46,743	4,543	5,010	56,296
Employee benefits	31,192	3,380	3,813	38,385
	<u>659,866</u>	<u>79,171</u>	<u>75,968</u>	<u>815,005</u>
Advertising and promotion	25,758	1,167	2,375	29,300
Depreciation	16,805	1,280	1,977	20,062
Dues and subscriptions	3,996	100	198	4,294
Insurance	2,782	197	294	3,273
Meals and catering	-	-	2,544	2,544
Postage	1,702	100	727	2,529
Printing	8,242	481	1,224	9,947
Professional services	38,500	6,416	39,931	84,847
Rental and maintenance, building	68,901	3,182	12,111	84,194
Rental and maintenance, equipment	19,740	1,276	2,153	23,169
Staff and board development	14,980	1,229	1,524	17,733
Student expense	57,974	-	1,340	59,314
Supplies	10,392	2,310	4,375	17,077
Telephone	4,794	282	564	5,640
Travel	926	12	-	938
	<u>\$ 935,358</u>	<u>\$ 97,203</u>	<u>\$ 147,305</u>	<u>\$ 1,179,866</u>

See accompanying notes

The Literacy Alliance, Inc.
Statements of Cash Flows
For the years ended August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ 287,218	\$ (316,801)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	24,010	20,062
Change in beneficial interest in community foundation	(14,989)	(6,009)
Donated property and equipment included in contributions	-	(17,500)
Loss on disposal of property and equipment	1,601	-
Changes in assets and liabilities:		
Grants and accounts receivable	(402,473)	177,827
Other receivables	1,977	(1,670)
Prepaid expense	2,753	(6,704)
Accounts payable and accrued expenses	29,889	13,541
Refundable advance	1,049	(21)
	<u>(68,965)</u>	<u>(137,275)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(15,984)	-
Purchase of certificates of deposit	(50,993)	-
Maturity of certificates of deposit	230,100	164,644
	<u>163,123</u>	<u>164,644</u>
Net provided by investing activities		
Cash flows from financing activities:		
Principal payments on long-term debt	(6,298)	(5,434)
	<u>(6,298)</u>	<u>(5,434)</u>
Net cash used in financing activities		
Net increase in cash	87,860	21,935
Cash, beginning of year	<u>39,872</u>	<u>17,937</u>
Cash, end of year	<u>\$ 127,732</u>	<u>\$ 39,872</u>

See accompanying notes

The Literacy Alliance, Inc.
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

The Literacy Alliance, Inc.'s (the "Organization") mission is to empower people and strengthen community through education. Programs serve individuals of all ages by offering reading, writing, math, language, and high school equivalency courses under the guidance of teachers, coordinators, and volunteers. All programs are free of cost to students.

Basis of Accounting

The Organization prepares its financial statements using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for not-for-profit entities.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. On an ongoing basis, management evaluates the estimates and assumptions based upon historical experience and various other facts and circumstances. Management believes these estimates and assumptions are reasonable; however, actual results could differ from those estimates.

Net Assets

The financial statements report net assets and changes in net assets based on the existence or absence of donor or grantor imposed restrictions. A description of the net asset classes are as follows:

Net Assets Without Donor Restrictions – Resources that are without donor-imposed restrictions and available to support operations subject to the nature of the Organization, the environment in which it operates, and the specified purpose in its application for tax-exempt status. The Organization may designate, from net assets without donor restrictions, net assets for specific purposes by action of the Board of Directors.

Net Assets With Donor Restrictions – Resources whose use by the Organization is restricted by the donor for a particular purpose or particular future period. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the release of restriction is reported in the financial statements by reclassifying the net assets.

Cash

Cash includes deposit accounts. The Organization places its cash with high credit quality institutions. At times such balances may be in excess of the Federal Deposit Insurance Corporation limit of \$250,000. As of August 31, 2024 and 2023, the Organization's account balances (including certificates of deposit) did not exceed the FDIC insurance limits. The Organization has not experienced any losses on these accounts and management believes the Organization is not exposed to any significant risk on cash.

1. Summary of Significant Accounting Policies, continued

Grants and Contributions Receivable

Grants and contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Grants and contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Grants and contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of the promise and is computed using a present value discount for anticipated cash flows. Amortization of the present value discount is recognized as additional contribution revenue. The Organization provides allowances for uncollectible pledges equal to the estimated collection losses that may be incurred in the collection of pledges. The estimated losses are based on historical collection experience and review of the current state of existing pledges. Management believes that all outstanding pledges receivable are collectible in full, therefore no allowance for uncollectible receivables has been provided.

Investments and Investment Income

The Organization's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 6 for discussion of fair value measurements.

Purchases and sales are recorded on a trade-date basis. Interest income is recorded when received. Dividends are recorded on the ex-dividend date. Realized and unrealized investment gains or losses are determined by comparison of specific asset cost to net proceeds received at the time of sale and changes in the difference between market values and cost, respectively.

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect account balance.

Property and Equipment

Property and equipment is stated at cost for purchased assets. Contributed property and equipment is recorded at fair market value at the date of the donation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	10 years
Furniture and equipment	3 – 10 years

Repairs and maintenance are expensed when incurred. Betterments and renewals are capitalized. The cost of assets sold or retired, and the amounts of accumulated depreciation, are eliminated in the year of disposal and the resulting gains or losses are included in the change in net assets.

Property and equipment is reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized during the years ended August 31, 2024 and 2023.

The Literacy Alliance, Inc.
Notes to Financial Statements

1. Summary of Significant Accounting Policies, continued

Support and Revenue

The Organization reports gifts of cash and other assets as restricted support if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions. The Organization classifies donor-restricted contributions as net assets without restrictions if the restrictions are met in the same reporting period in which the contributions are received.

The Organization reports gifts of property and equipment as net assets without restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional grants and promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which it depends have been substantially met. Contributions received with donor-imposed conditions and restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions.

The Organization provides educational services under a contractual relationship with a third-party. The Organization recognizes revenue on a monthly basis for all educational services performed during the same month. Billings occur at the beginning of each month for all services in the same month and are generally paid within 30 days.

Contributed Nonfinancial Assets

Contributed nonfinancial assets include donated professional services, donated equipment, and other in-kind contributions which are recorded at the respective fair values of the goods or services received. The Organization's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Organization. If an asset is provided that does not allow the Organization to utilize it in its normal course of business, the asset will be sold at its fair market value.

The Organization recognized \$12,240 and \$16,700 of donated rent related to classroom space that was recorded by the Organization as contributions without restrictions offset by rent expense for the years ended August 31, 2024 and 2023, respectively. Donated fair market value is determined by similar classroom or office space in the area.

The Organization received donated advertising with an estimated fair market value of \$9,170 and \$23,751 for the years ended August 31, 2024 and 2023, respectively. Fair market value was determined by assessing identical or similar advertising using pricing data under a "like-kind" methodology considering the advertising medium at the time of the contribution. These items are recorded as contributions without restrictions and are used in program related activities.

The Organization received donated computer equipment with an estimated fair market value of \$17,500 for the year ended August 31, 2023. Donated property and equipment are recorded as contributions without donor restrictions and are intended to be used in Organization programming. The fair value of property and equipment is determined based on pricing data under a "like-kind" methodology considering the goods' condition and utility for use at the time of the contribution.

The Literacy Alliance, Inc.
Notes to Financial Statements

1. Summary of Significant Accounting Policies, continued

Income Tax

The Organization is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation. No provision for federal income taxes has been made in the accompanying financial statements. There was no unrelated business income for the years ended August 31, 2024 and 2023.

The Organization recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the positions related to the potential sources of income subject to unrelated business income tax (UBIT). There were no unrecognized tax benefits identified or recorded as liabilities for the years ended August 31, 2024 and 2023.

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, most expenses are attributed to more than one program or supporting function. Therefore, expenses are allocated on the basis of estimates of time and effort.

Reclassifications

Certain reclassifications have been made for the year ended August 31, 2023 to conform to the classifications used for the year ended August 31, 2024. These reclassifications did not affect results of operations as previously reported.

The Literacy Alliance, Inc.
Notes to Financial Statements

2. Liquidity and Availability

Financial assets without donor-imposed restriction and available for general expenditures, within one year of the statement of financial position, comprised the following as of August 31:

	<u>2024</u>	<u>2023</u>
Cash	\$ 81,638	\$ 28,996
Certificates of deposit	15,747	194,150
Grants and contributions receivable	311,815	93,343
Other receivables	<u>300</u>	<u>2,277</u>
	<u>\$ 409,500</u>	<u>\$ 318,766</u>

The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within budgetary compliance in a prudent range of financial stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 60 days operating expenses. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. The Organization has a line of credit available in the amount of \$75,000 which can be drawn upon in the event of an unanticipated liquidity need. During the years ended August 31, 2024 and 2023, the level of liquidity and reserves was managed within the policy requirements.

3. Grants and Contributions Receivable

Grants and contributions receivable consisted of the following as of August 31:

	<u>2024</u>	<u>2023</u>
Due in less than one year	\$ 348,917	\$ 99,744
Due in one to five years	<u>175,000</u>	<u>15,000</u>
	523,917	114,744
Less: Unamortized present value discount	<u>7,101</u>	<u>401</u>
	<u>\$ 516,816</u>	<u>\$ 114,343</u>

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 4.23% and 2.75% for the years ended August 31, 2024 and 2023, respectively.

The Literacy Alliance, Inc.
Notes to Financial Statements

4. Conditional Promise to Give

The Organization is recipient of an annual grant award from the Indiana Department of Workforce Development that contains donor conditions of incurring qualifying expenses. The award for the grant periods beginning July 1, 2024 and 2023 was \$615,000 and \$296,566, respectively. Since the grant represents a conditional promise to give, it is not recorded as contribution income until donor conditions are met. The outstanding conditional promise to give was \$493,608 and \$233,322 as of August 31, 2024 and 2023, respectively.

5. Beneficial Interest in Community Foundation

The investments held by the Community Foundation of Greater Fort Wayne, Inc. ("Foundation") are the result of an agreement whereby the Organization has transferred assets, without variance power, to the Foundation and has specified itself as the beneficiary of those assets. The Organization may draw up to 4.50% of the fund balance each year per the agreement between the Foundation and the Organization. The Foundation is responsible for managing these funds in investments at its discretion. The following is a summary of the changes in this fund for the years ended August 31:

	2024	2023
Balance, beginning of year	\$ 96,059	\$ 90,050
Interest and dividends	3,291	2,668
Realized gains	3,390	2,441
Unrealized gains	8,814	1,362
Investment and administrative fees	(506)	(462)
Balance, end of year	\$ 111,048	\$ 96,059

Return objectives and risk parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the endowment assets. Endowment assets include no donor-restricted funds, only board designated funds. The Organization expects its endowment fund, over time, to provide an average rate of return of approximately 4.50% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy: The Organization's policy of appropriation for annual distribution is based on the previous year's investment income, less investment expenses, subject to consideration by the Organization, to support the needs of its programs. This policy is based on the Organization's long-term expected return on its endowment.

Additionally, the Foundation holds investment assets with a value of \$108,815 and \$84,579 at August 31, 2024 and 2023, respectively, for the benefit of the Organization for which the Foundation has retained variance power. These assets are not recorded as assets of the Organization.

6. Fair Value Measurements

The Organization reports fair value measures of its assets using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset measurements within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

Level 1	Quoted prices for identical assets or liabilities in active markets to which the Organization has access at the measurement date.
Level 2	Inputs other than quoted prices included in level 1 that are observed for the asset or liability, either directly or indirectly. Level 2 inputs include: <ul style="list-style-type: none"> • Quoted prices for similar assets or liabilities in active markets; • Quoted prices for identical or similar assets or liabilities in inactive markets; • Observable inputs other than quoted prices for the assets or liabilities; and • Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
Level 3	Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

The fair value measurement level of assets and liabilities within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2024 and 2023.

Beneficial interest in assets: Valued based upon the Organization’s proportionate share of the Community Foundation (“Foundation”) pooled investment portfolio. The Organization’s Board of Directors reviews the valuation and returns in comparison to industry benchmarks and other information provided by the Foundation.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization’s assets measured at fair value as of August 31:

	<u>Hierarchy</u>	<u>2024</u>	<u>2023</u>
Beneficial interest in assets held by The Community Foundation of Greater Fort Wayne	Level 3	\$ 111,048	\$ 96,059

A reconciliation of assets measured at fair value on a recurring basis using significant observable inputs (Level 3) can be found in Note 5.

The Literacy Alliance, Inc.
Notes to Financial Statements

7. Property and Equipment

Property and equipment, summarized by major classification, consisted of the following as of August 31:

	<u>2024</u>	<u>2023</u>
Leasehold improvements	\$ 57,634	\$ 57,634
Furniture and equipment	<u>132,904</u>	<u>188,411</u>
	190,538	246,045
Less: Accumulated depreciation	<u>130,908</u>	<u>176,788</u>
	<u>\$ 59,630</u>	<u>\$ 69,257</u>

Depreciation expense was \$24,010 and \$20,062 for the years ended August 31, 2024 and 2023, respectively.

8. Leases

The Organizations leases its building and certain office equipment under various long-term noncancelable operating lease agreements. The leases expire at various dates through 2026 and require the payment of real estate taxes, insurance, and repairs. The Organization has elected to apply the short-term lease exception to all leases with a term of one year or less and are not recorded as right-of-use assets and related lease liabilities. Lease payments for short-term leases are recognized on a straight-line basis over the lease term.

The following summarizes the line items in the statements of financial position which include amounts for operating leases as of August 31:

	<u>2024</u>	<u>2023</u>
Right-of-use assets, operating leases	<u>\$ 64,647</u>	<u>\$ 102,847</u>
Current maturities of operating lease liabilities	\$ 41,343	\$ 38,008
Operating lease liabilities, net of current maturities	<u>21,883</u>	<u>63,227</u>
	<u>\$ 63,226</u>	<u>\$ 101,235</u>

The following summarizes the line items in the statements of activities which include the components of lease expense for the years ended August 31:

	<u>2024</u>	<u>2023</u>
Operating lease cost:		
Rental and maintenance, building	\$ 43,457	42,420
Short-term lease cost:		
Rental and maintenance, building	4,380	4,380
Rental and maintenance, equipment	5,222	5,222

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8. Leases, continued

The following summarizes cash flow information related to leases for the years ended August 31:

	<u>2024</u>	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 53,059	34,926

The weighted-average discount rate is based on the discount rate implicit in the lease. If the implicit rate is not readily determinable from the lease, an applicable incremental borrowing rate is used. The following summarizes the weighted average remaining lease term and discount rate as of August 31:

Weighted-average remaining lease term	1.5 years
Weighted-average discount rates	6.25%

The maturities of lease liabilities as of August 31, 2024 were as follows:

2025	\$ 44,130
2026	<u>22,284</u>
Total lease payments	66,414
Less:	
Amounts representing interest	3,188
Current maturities	<u>41,343</u>
	<u>\$ 21,883</u>

In September 2024, the Organization amended its building lease to occupy additional space. The amendment requires additional monthly lease payments ranging from \$4,139 to \$4,816 and expires in February 2026.

9. Line of Credit

The Organization has a revolving line of credit agreement with STAR Financial Bank to provide for short-term working capital requirements up to \$75,000. The agreement matures in February 2025, is secured by substantially all business assets of the Organization and bears interest at the bank's prime rate plus 1.00% (9.50% as of August 31, 2024). There was no outstanding balance as of August 31, 2024 and 2023.

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10. Long-term Debt

Long-term debt consisted of the following as of August 31:

	<u>2024</u>	<u>2023</u>
Note payable to The Summit FW, LLC in monthly installments of \$557 including interest at 3.00% maturing in January 2026. The note is secured by leasehold improvements.	\$ 9,251	\$ 15,549
Less: Current maturities	<u>6,489</u>	<u>6,298</u>
	<u>\$ 2,762</u>	<u>\$ 9,251</u>

Maturities on long-term debt are as follows as of August 31, 2024:

2025	\$ 6,489
2026	<u>2,762</u>
	<u>\$ 9,251</u>

11. Net Assets With Donor Restrictions

Net assets were released from restrictions by incurring expenses satisfying the donor-imposed restriction. The amount released was \$88,956 and \$215,004 for years ended August 31, 2024 and 2023, respectively.

Net assets with donor restrictions are available for the following purposes or periods as of August 31:

	<u>2024</u>	<u>2023</u>
Subject to expenditure for specific purpose:		
Digital literacy	\$ 45,771	\$ 46,854
Project Graduate	30,000	-
Project Connect	-	21,000
Scholarships	323	6,333
Habitat houses	-	92
	<u>76,094</u>	<u>74,279</u>
Subject to the passage of time:		
Operating support	<u>365,000</u>	<u>30,000</u>
	<u>\$ 441,094</u>	<u>\$ 104,279</u>

12. Retirement Plan

The Organization has a defined contribution plan under Section 403(b) of the Internal Revenue Code. The plan covers substantially all employees. For the years ended August 31, 2024 and 2023, the match was 100% of employee contributions not to exceed 3% of the employee's regular wages. Contributions expense related to the plan were \$19,264 and \$15,268 for the years ended August 31, 2024 and 2023, respectively.

13. Concentrations of Risk

A significant portion, approximately 65% and 34%, of the Organization's annual grants and contributions comes from two funding sources for the years ended August 31, 2024 and 2023, respectively. As of August 31, 2024 and 2023, \$350,000 and \$63,243 was receivable from these sources. Additionally, substantially all of the Organization's program service fees comes from one customer.

The majority of the Organization's contributions and grants are received from corporations, foundations, and individuals located in the greater Fort Wayne area and from agencies of the state of Indiana. As such, the Organization's ability to generate resources via contributions and grants is dependent upon the economic health of that area and the state of Indiana.

14. Subsequent Event

Subsequent events for possible adjustment to the financial statements or disclosures have been evaluated through November 14, 2024, which is the date the financial statements were available to be issued.