

LITERATIONS CORP.
FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2022 AND 2021

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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LITERATIONS CORP.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021



Literations

Empowering Young Readers

Mission Statement

Literations improves the literacy skills of young children through Grade 3 by engaging professionally trained older adult volunteers as literacy coaches in our partner schools and after-school programs. We serve communities where opportunity gaps exist to ensure all students have the resources to become literacy proficient.

LITERATIONS CORP.
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Literations Corp.
Boston, Massachusetts

Opinion

We have audited the accompanying financial statements of Literations Corp. (a Massachusetts nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, 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 Literations Corps. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Literations Corp. 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 Literations Corp.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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.

To the Board of Directors
Literations Corp.

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 Literations Corp.'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 Literations Corp.'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 audits.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
November 15, 2022

LITERATIONS CORP.

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 399,775	\$ 411,174
Accounts Receivable, Program Services	33,500	67,766
Gifts, Grants and Contributions Receivable	90,907	58,009
Prepaid Expenses	<u>3,471</u>	<u>6,984</u>
Total Current Assets	<u>527,653</u>	<u>543,933</u>
<u>NON-CURRENT ASSETS:</u>		
Board Designated Reserves	108,472	81,852
Gifts, Grants and Contributions Receivable	23,000	46,000
Security Deposit	<u>3,500</u>	<u>21,350</u>
Total Non-Current Assets	<u>134,972</u>	<u>149,202</u>
<u>TOTAL ASSETS</u>	<u>\$ 662,625</u>	<u>\$ 693,135</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Accounts Payable and Accrued Expenses	\$ 6,264	\$ 43,823
Accrued Payroll and Related Costs	<u>43,165</u>	<u>77,101</u>
Total Current Liabilities	<u>49,429</u>	<u>120,924</u>
<u>NET ASSETS:</u>		
Net Assets Without Donor Restrictions:		
Undesignated	408,724	321,359
Board Designated	<u>108,472</u>	<u>81,852</u>
Total Net Assets Without Donor Restrictions	<u>517,196</u>	<u>403,211</u>
Net Assets With Donor Restrictions:		
Program Restricted	46,000	69,000
Time Restricted	<u>50,000</u>	<u>100,000</u>
Total Net Assets With Donor Restrictions	<u>96,000</u>	<u>169,000</u>
Total Net Assets	<u>613,196</u>	<u>572,211</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 662,625</u>	<u>\$ 693,135</u>

LITERATIONS CORP.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	JUNE 30, 2022			JUNE 30, 2021		
	<u>WITHOUT</u>	<u>WITH</u>	<u>TOTAL</u>	<u>WITHOUT</u>	<u>WITH</u>	<u>TOTAL</u>
	<u>DONOR</u>	<u>DONOR</u>		<u>DONOR</u>	<u>DONOR</u>	
	<u>RESTRICTIONS</u>	<u>RESTRICTIONS</u>		<u>RESTRICTIONS</u>	<u>RESTRICTIONS</u>	
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>						
<i>Support and Revenues:</i>						
Government Grants	\$ 324,363	\$ -	\$ 324,363	\$ 334,430	\$ 155,900	\$ 490,330
Foundation and Corporate Grants	458,359	50,000	508,359	55,000	292,000	347,000
Gifts and Contributions	152,110	-	152,110	201,462	10,000	211,462
Participation Fees	152,500	-	152,500	78,000	-	78,000
Donated Goods, Services and Facilities	294,421	-	294,421	145,766	-	145,766
Special Event Proceeds	139,810	-	139,810	124,209	-	124,209
Less: Direct Event Costs	(14,620)	-	(14,620)	-	-	-
Rental Income, Sublease	-	-	-	45,000	-	45,000
Other Income	287	-	287	161	-	161
Investment Income (Loss)	(3,575)	-	(3,575)	-	-	-
<i>Reclassification of Net Assets - Released from Restriction:</i>						
Satisfaction of Donor Restrictions	123,000	(123,000)	-	633,900	(633,900)	-
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>1,626,655</u>	<u>(73,000)</u>	<u>1,553,655</u>	<u>1,617,928</u>	<u>(176,000)</u>	<u>1,441,928</u>
<u>EXPENSES:</u>						
Program Services	1,161,817	-	1,161,817	1,035,187	-	1,035,187
Administrative	202,979	-	202,979	252,719	-	252,719
Fund Raising	147,874	-	147,874	237,088	-	237,088
<u>TOTAL EXPENSES</u>	<u>1,512,670</u>	<u>-</u>	<u>1,512,670</u>	<u>1,524,994</u>	<u>-</u>	<u>1,524,994</u>
<u>CHANGE IN NET ASSETS</u>	113,985	(73,000)	40,985	92,934	(176,000)	(83,066)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>403,211</u>	<u>169,000</u>	<u>572,211</u>	<u>310,277</u>	<u>345,000</u>	<u>655,277</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 517,196</u>	<u>\$ 96,000</u>	<u>\$ 613,196</u>	<u>\$ 403,211</u>	<u>\$ 169,000</u>	<u>\$ 572,211</u>

LITERATIONS CORP.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

(With Summarized Comparative Totals for 2021)

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND-</u> <u>RAISING</u>	<u>DIRECT</u> <u>DONOR</u> <u>BENEFITS</u>	<u>TOTAL</u> <u>FUNCTIONAL EXPENSES</u>	
					<u>2022</u>	<u>2021</u>
Salaries and Wages	\$ 521,465	\$ 100,148	\$ 107,101	\$ -	\$ 728,714	\$ 748,658
Payroll Taxes	48,222	8,325	9,730	-	66,277	71,779
Fringe Benefits	57,471	5,530	8,127	-	71,128	64,569
Staff Training and Development	5,596	1,087	821	-	7,504	19,814
Consultants and Professional Fees	21,160	30,999	3,649	-	55,808	77,367
Professional Fees, In-Kind	-	-	-	-	-	5,726
Event Costs	8,738	15	22	-	8,775	4,415
Cost of Direct Benefits to Donors	-	-	-	14,620	14,620	-
Volunteer Background Checks	4,928	139	-	-	5,067	248
Volunteer Incentives and Stipends	160,704	800	1,400	-	162,904	136,854
Volunteer Time, In-Kind	264,011	30,075	-	-	294,086	140,040
Program Supplies and Activities	4,075	23	478	-	4,576	1,822
Equipment Rental and Maintenance	5,896	1,635	1,320	-	8,851	8,120
General and Professional Liability Insurance	5,068	1,984	1,017	-	8,069	8,506
Occupancy	26,452	3,756	4,944	-	35,152	134,000
Office Supplies and Expenses	283	715	258	-	1,256	21,433
Printing and Postage	382	86	3,871	-	4,339	6,001
Recruitment	2,510	443	244	-	3,197	779
Information Technology Costs	5,393	8,556	520	-	14,469	50,881
Telephone and Communications	15,995	7,936	1,596	-	25,527	11,349
Staff Travel	2,635	88	57	-	2,780	519
Advertising	405	61	2,647	-	3,113	3,413
Miscellaneous Expense	428	578	72	-	1,078	8,701
Total Functional Expenses	1,161,817	202,979	147,874	14,620	1,527,290	1,524,994
Less: Cost of Direct Benefits to Donors	-	-	-	(14,620)	(14,620)	-
Total Expenses per Statement of Activities	<u>\$ 1,161,817</u>	<u>\$ 202,979</u>	<u>\$ 147,874</u>	<u>\$ -</u>	<u>\$ 1,512,670</u>	<u>\$ 1,524,994</u>

LITERATIONS CORP.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND-</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL</u> <u>EXPENSES</u>
Salaries and Wages	\$ 498,200	\$ 121,841	\$ 128,617	\$ 748,658
Payroll Taxes	49,621	10,693	11,465	71,779
Fringe Benefits	46,102	8,606	9,861	64,569
Staff Training and Development	14,055	2,427	3,332	19,814
Consultants and Professional Fees	43,403	25,060	8,904	77,367
Professional Fees, In-Kind	-	5,726	-	5,726
Event Costs	-	-	4,415	4,415
Volunteer Background Checks	248	-	-	248
Volunteer Incentives and Stipends	125,554	9,500	1,800	136,854
Volunteer Time, In-Kind	108,055	1,985	30,000	140,040
Program Supplies and Activities	1,822	-	-	1,822
Depreciation Expense	-	-	-	-
Equipment Rental and Maintenance	3,397	3,510	1,213	8,120
General and Professional Liability Insurance	6,124	1,106	1,276	8,506
Occupancy	77,904	37,205	18,891	134,000
Occupancy, In-Kind Volunteer Sites	-	-	-	-
Office Supplies and Expenses	12,546	5,832	3,055	21,433
Printing and Postage	2,158	326	3,517	6,001
Recruitment	779	-	-	779
Information Technology Costs	36,225	6,322	8,334	50,881
Telephone and Communications	4,826	4,798	1,725	11,349
Staff Travel	224	275	20	519
Advertising	2,607	248	558	3,413
Miscellaneous Expense	1,337	7,259	105	8,701
Total Functional Expenses	<u>\$ 1,035,187</u>	<u>\$ 252,719</u>	<u>\$ 237,088</u>	<u>\$ 1,524,994</u>

LITERATIONS CORP.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 40,985	\$ (83,066)
<i>Adjustments to Reconcile the Above to Net Cash Provided (Used) by Operating Activities:</i>		
Investment Return	3,431	-
<i>(Increase) Decrease in Current Assets:</i>		
Accounts Receivable, Program Services	34,266	14,695
Gifts, Grants and Contributions Receivable	(32,898)	183,910
Prepaid Expenses	3,513	18,035
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	(37,559)	25,998
Accrued Payroll and Related Costs	(33,936)	14,984
Conditional Grant Advance	-	(155,900)
Security Deposit Held	-	(3,100)
<i>(Increase) Decrease in Non-Current Assets:</i>		
Gifts, Grants and Contributions Receivable	23,000	(46,000)
Security Deposit	17,850	(3,500)
Net Adjustment	<u>(22,333)</u>	<u>49,122</u>
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	<u>18,652</u>	<u>(33,944)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Board Designated Investments	<u>(50,000)</u>	<u>-</u>
Net Cash Flows from Investing Activities	<u>(50,000)</u>	<u>-</u>
<u>NET DECREASE IN CASH BALANCES</u>	<u>(31,348)</u>	<u>(33,944)</u>
<u>CASH BALANCES - BEGINNING OF YEAR</u>	<u>493,026</u>	<u>526,970</u>
<u>CASH BALANCES - END OF YEAR</u>	<u>\$ 461,678</u>	<u>\$ 493,026</u>
<i>Cash Balances:</i>		
Cash	\$ 399,775	\$ 411,174
Board Designated Reserves	<u>61,903</u>	<u>81,852</u>
Total Cash Balances	<u>\$ 461,678</u>	<u>\$ 493,026</u>

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 ORGANIZATION

Generations Incorporated was incorporated in March 1994, under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code (“IRC”). Effective June 17, 2021, the Organization’s legal name was changed to Literations Corp. (the “Organization” or “Literations”). Literations is not classified as a private foundation under IRC Section 509(a); accordingly, contributions made to this Organization qualify for the maximum charitable deduction for federal income tax purposes.

NOTE 2 PROGRAM SERVICES AND AFFILIATIONS

Literations’ mission is to drive educational equity through experienced community volunteers empowering young readers for lifelong learning. Literations is dedicated to improving the reading proficiency of young students in kindergarten through 3rd grade in under-resourced communities using a proven literacy model and trained older adult volunteer coaches.

The Organization affiliates with a national program called AARP Foundation Experience Corps, whose mission is to create powerful opportunities for older adults to meet society’s greatest challenge and a vision which focuses on older adults as integral parts of the education strategy of America.

The Organization’s primary program is therefore its AARP Foundation Experience Corps Program, or Literacy Program.

- Literations collaborates with teachers and schools to provide structured support to young students (K-3rd grade) who can benefit from 1:1 reading practice. Adult trained volunteers are matched with students for twice weekly sessions throughout the school year to read and practice under the supervision of a caring coach and mentor.
- During the 2021-2022 school year, this program was conducted through a hybrid in-person platform and virtual platform using Zoom. Students in nine Boston Public Schools continued to meet with their literacy coach twice weekly in both in-person and virtual sessions during the school year.

Additionally, the Organization operates the following supplemental program:

- The *Active Aging Program* provides our AARP Foundation Experience Corps volunteers with meaningful activities, beyond their work with students, to enhance their physical, mental, and social well-being and connect them to the community.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The financial statements of Literations have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 3 (Continued)

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) 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; however, adherence to generally accepted accounting principles, has in management’s opinion, resulted in reliable and consistent financial reporting by the Organization.

Fair Value of Financial Instruments:

The Organization reports its fair value measures by using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting principles, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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 Center has access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; observable inputs other than quoted prices for the asset or liability (for example, interest rate and yield curves); and inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3 - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The primary use of fair value measures in the Organization’s financial statements are the recurring measurement of its investments.

Financial Statement Presentation:

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

These classifications are related to the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. In addition, net assets within this classification include funds which represent resources designated by the Board of Directors for specific purposes.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 3 *(Continued)*

Net Assets With Donor Restrictions - Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity. For the years presented, the Organization has no net assets that are required to be maintained in perpetuity. The Organization's unspent contributions are reported in net assets with donor restrictions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

Accounts Receivable, Program Services:

Accounts Receivable, Program Services represents amounts which are due from government funded program service grants and school participation fees. These amounts are considered fully collectible; consequently, these financial statements do not contain a provision for uncollectible accounts receivable. Therefore, if accounts become uncollectible, a provision will be recorded at that time. For the years presented, there were no bad debts from program service revenues.

Gifts, Grants and Contributions Receivable:

Gifts, Grants and Contributions Receivable represent amounts due from individual and corporate donors as well as foundation grants and are reported at their net realizable value. Amounts scheduled for receipt within one year are reported as current, and amounts are reported as non-current when the expected date of receipt exceeds one year. Promises to give with expected payment dates that extend beyond one year are discounted to their present value when such amounts are considered material. Management periodically reviews specific grants, commitments and agreements to determine if any balances are uncollectible. Management believes that these amounts are fully collectible, and therefore, no allowance for doubtful amounts has been established. For the years presented, the Organization reported no losses from uncollectible grants and pledges receivable.

Property and Equipment:

Literations records all property and equipment at cost, if purchased (exceeding \$5,000), or if donated, at the fair value on the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Depreciation is computed using the straight-line method, and is charged against activities over the estimated useful lives of the assets, as expressed in terms of years.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 3 (Continued)

Board Designated Reserves:

Board Designated Reserves include cash held in savings and brokerage accounts, and reserves invested in equity securities and fixed income bonds. Investment purchases are recorded at cost. Thereafter, investments are reported at their fair values in the Statements of Financial Position. Net investment return (loss) is reported in the Statements of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. Cash held in brokerage accounts is reported as investments for purposes of these financial statements. Investments are classified as either short-term or long-term depending on the underlying intentions. As of June 30, 2022 and 2021, *Board Designated Reserves* are considered long-term and consisted of the following composition:

<u>Investment Description</u>	<u>Fair Value Hierarchy</u>	<u>2022</u>	<u>Fair Value 2021</u>
Cash	N/A	\$ 86,910	\$81,852
Equity Securities	Level 1	14,344	-
Bond Mutual Funds	Level 1	<u>7,218</u>	<u>-</u>
Total Investments		<u>\$108,472</u>	<u>\$81,852</u>

Literations uses the following ways to determine the fair value of its investments:

Equity Securities and Mutual Funds: traded on national securities exchanges and are determined by the published closing price on the last business day of the fiscal year.

Revenue Recognition:

Gifts, Grants and Contributions

The Organization is the beneficiary of contributions in the form of grants from other organizations, donations of cash and financial assets from individuals and contributions of nonfinancial assets. Contributions, including promises to give, without donor conditions are recognized as revenue at their estimated fair value at the date of donation and classified as either with or without donor restrictions depending on the donor's stipulations or lack thereof. Unconditional, multi-year commitments are recognized in the year during which the initial commitment is made at the amount that the organization reasonably expects to collect. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved when such amounts are considered material. Amounts receivable from donors are evaluated yearly for collectability and an allowance for uncollectible pledges is recorded as necessary.

Conditional donations are those that have a measurable performance or other barrier and include a right of return of the assets or right of release of the donor from further obligation if the conditions are not met. Conditional donations are not recognized until the associated barriers are met. Any cash received before the conditions or barriers are met it is reported as a refundable advance. When the conditions are met the revenue is reported as contributions without restrictions unless there are further restrictions over and above those associated with the donor conditions.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 3 *(Continued)*

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions until the restriction are met, at which time the net assets are reclassified to net assets without donor restrictions.

Donations of Nonfinancial Assets

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. *(See Note 9)*

Cost-Reimbursement Agreements

A portion of the Organization’s revenue is derived from cost-reimbursable grants through AmeriCorps and the Office of Juvenile Justice and Delinquency Prevention (“OJJDP”), which are conditional upon certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. The Organization invoices AmeriCorps and OJJDP after such expenses have been incurred and does not receive payment in advance of service delivery; accordingly, there is no obligation for conditional grant advances arising from these agreements in the accompanying financial statements. As of June 30, 2022 and 2021, the aggregate conditional remaining balance on these agreements amounted to \$5,596 and \$106,659, respectively.

Participation Fees

Literations receives participation fees for the delivery of literacy and tutoring programs which are recognized as services are delivered during the academic year which corresponds to the Organization’s fiscal year. When applicable, deposits received in advance are recognized as *Deferred Revenue*, a contract liability, in the accompanying Statements of Financial Position.

Functional Expenses:

The Organization allocates its expenses on a functional basis among various programs and support services. Expenses that are common to several functions are allocated using space and time usage formulas. In the accompanying Statement of Functional Expenses, *Salaries and Wages, Payroll Taxes, Fringe Benefits, Consultants and Professional Fees, Depreciation Expense, Occupancy, General and Professional Liability Insurance, Office Supplies and Expenses and Telephone and Communications* are allocated based on estimates of time and effort. Supporting services are those related to operating and managing the Organization and its programs on a day-to-day basis. Supporting services have been sub-classified as follows:

Administrative - includes all activities related to Literations’ internal management and accounting for program services.

Fund Raising - includes all activities related to maintaining contributor information, writing grant proposals, direct mail solicitation, distribution of materials and other similar projects related to the procurement of funds.

Cost of Direct Benefit to Donors - includes the direct costs of fundraising events.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 3 *(Continued)*

Recent Accounting Guidance:

Recently Implemented Standards

In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This updated guidance impacts not-for-profit entities that have revenue transactions other than contributions. In August 2015, the FASB deferred the effective date of ASC Update No. 2014-09 by one year when it issued ASC Update No. 2015-14, (Topic 606) *Revenue from Contracts with Customers*. This standard was adopted by the Organization effective July 1, 2020. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognized revenue, and therefore no changes in the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

During the year ended June 30, 2022, the Organization adopted ASU 2020-07 *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU increases transparency in reporting nonprofit gifts-in-kind in the Organization's financial statements. Although the standard did not change the accounting for contributed nonfinancial assets, the Organization's disclosures have been enhanced to provide qualitative policy information on the techniques and inputs used to determine the valuation of nonfinancial donations. Accordingly, disclosures for the year ended June 30, 2021 were enhanced to be comparative to the 2022 presentation.

Recently Issued Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASC Update No. 2016-02, *Leases (Topic 842)*. This ASC update requires a lessee to recognize a right-of-use asset, which represents the lessee’s right to use a specified asset for the lease term, and a corresponding lease liability, which represents a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, for all leases that extend beyond 12 months. ASC Update No. 2016-02 requires that implementation of this guidance be through a modified retrospective transition approach. In July 2018, the FASB issued ASC Update No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities with an additional transition method to adopt ASC Update No. 2016-02. Under this optional transition method, an entity can initially apply the new guidance at the adoption date and recognize a cumulative-effect adjustment to the opening net asset balance in the period of adoption. In June 2020, the FASB deferred the effective date of this standard when it issued ASC Update No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. This standard is effective for this Organization in financial statements issued for fiscal years beginning July 1, 2022.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 4 GIFTS, GRANTS AND CONTRIBUTIONS RECEIVABLE

The Organization has received various multi-year pledges to fund literacy programs. Included within *Gifts, Grants and Contributions Receivable* as of June 30, 2022 and 2021, Literations recorded unconditional promises to give due as follows:

	<u>2022</u>	<u>2021</u>
Receivable in Less Than One Year	\$ 90,907	\$ 58,009
Receivable in One to Five Years	<u>23,000</u>	<u>46,000</u>
Total Unconditional Promises to Give	<u>\$113,907</u>	<u>\$104,009</u>

NOTE 5 LINE-OF-CREDIT

The Organization has a \$50,000 working capital line-of-credit. As of June 30, 2022 and 2021, outstanding borrowings are subject to interest at the annual rate of 4.75% and 3.25%, respectively. The line-of-credit was not used in the years presented and carried a zero balance as of June 30, 2022 and 2021. The line-of-credit is secured by all business assets of the Organization and, unless renewed, expires on March 6, 2023.

NOTE 6 RESTRICTIONS AND DESIGNATIONS OF NET ASSETS

Board Designated Net Assets:

Board Designated Net Assets include net assets without donor restrictions designated by the Board of Directors to establish reserve funds more fully described in Note 13.

Net Assets With Donor Restrictions:

Net assets with donor restrictions consists of unexpended donor designated grants and contributions with the following restrictions as of June 30, 2022 and 2021:

<u>Nature of Restriction</u>	<u>2022</u>	<u>2021</u>
Literacy Program	\$46,000	\$ 69,000
Time Restricted	<u>50,000</u>	<u>100,000</u>
Total	<u>\$96,000</u>	<u>\$169,000</u>

Net assets released from restrictions by incurring expenses which satisfied the restricted purposes or by occurrence of events specified by the donors were as follows:

<u>Nature of Restriction</u>	<u>2022</u>	<u>2021</u>
Expiration of Time Restrictions	\$100,000	\$279,500
Literacy Program	23,000	165,000
Paycheck Protection Program Loan Release	-	155,900
Information Technology Upgrades	-	25,000
Active Aging Program	-	7,000
Cultural Responsiveness Workshops	-	<u>1,500</u>
Total	<u>\$123,000</u>	<u>\$633,900</u>

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 7 GOVERNMENT FUNDED PROGRAM SERVICE GRANTS

The Organization was the recipient of government funded service grants for the years ended June 30, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
<i>Federal Funding:</i>		
AmeriCorps National Direct	\$184,277	\$183,549
Office of Juvenile Justice and Delinquency Prevention	91,500	108,383
U.S. Department of Health and Human Services	<u>16,711</u>	<u>24,498</u>
Total Federal Funding	292,488	316,430
<i>State Funding:</i>		
Massachusetts Mentoring Partnership	<u>31,875</u>	<u>18,000</u>
Total Government Grants	<u>\$324,363</u>	<u>\$334,430</u>

NOTE 8 CONDITIONAL GRANTS

Cummings Foundation:

In FY 2017, Literations received a \$50,000 sustaining grant from the Cummings Foundation (the "Foundation") which provides for up to nine annual renewals, conditional upon the sole discretion of the Foundation. During FY 2022 and FY 2021, Literations had received its fourth and fifth year of funding, with four remaining annual installments available under the grant as of June 30, 2022.

The Organization has a long standing relationship with the Cummings Foundation and feels confident that they will continue to meet the conditions of this multi-year grant. The total conditional amount of this 10-year sustaining grant is \$500,000. As of June 30, 2022, the Organization had received a total of \$300,000 in annual installments of \$50,000.

As of June 30, 2022 and 2021, the aggregate conditional amount of the Cummings commitment was \$200,000 and \$250,000, respectively. As the terms of the conditions had not been met, the support has not been recognized in the accompanying financial statements.

Paycheck Protection Program Loan:

The Organization received a loan in the amount of \$205,900 from First Republic Bank through the Paycheck Protection Program established by the U.S. CARES Act (the "PPP Loan") on April 20, 2020. The Organization elected to account for the expected forgivable portion of this loan as a conditional grant commitment with the intention to apply for and receive full forgiveness of the loan, while any remaining balance would be repayable over a five-year term and subject to interest at the annual rate of 1%. The amount forgiven equals the amount incurred on qualifying costs (payroll, mortgage interest, rent utilities, as defined and subject to limitations) during the covered period. Literations elected to use a 24-week covered period which expired on October 5, 2020. As of June 30, 2020, Literations had incurred qualifying costs of \$50,000 in FY 2020 and \$155,900 in FY 2021 which were recognized as grant income in each respective fiscal year. The Organization applied for and received forgiveness in full of the PPP Loan in January 2021.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 9 DONATED GOODS, SERVICES AND FACILITIES

The following donated goods, services and facilities have been recognized as revenues with offsetting expenses in the accompanying financial statements:

	<u>2022</u>	<u>2021</u>
Experience Corps Volunteers	\$294,086	\$140,050
Materials and Supplies	335	-
Pro Bono Legal Fees	<u>-</u>	<u>5,716</u>
Total In-Kind Donations	<u>\$294,421</u>	<u>\$145,766</u>

In-kind donations of volunteer time have been valued at \$13 per hour for the years ended June 30, 2022 and 2021, which management considers to be a very conservative estimate.

NOTE 10 EMPLOYEE BENEFIT PLAN

The Organization maintains a retirement plan qualified under IRC Section 403(b). No employer contributions were made for the years ended June 30, 2022 and 2021. All employees are eligible as long as they are employed by the Organization when the contribution is made.

NOTE 11 LEASE COMMITMENTS

Office Space:

The Organization leased office facilities located in Boston, Massachusetts pursuant to a lease that expired on June 30, 2021. Additional rent was assessed to cover the Organization's share of increases in real estate taxes and rent was adjusted annually based on increases in the Consumer Price Index as defined.

In May 2021, the Organization executed a sub-lease agreement for a new office space in Boston. The lease commenced September 1, 2021 and runs through June 29, 2024. Under the terms of the lease, base rent is \$42,000 per year. Rent expense was \$35,000 and \$134,000 for the years ended June 30, 2022 and 2021, respectively. Future minimum lease payments are due as follows:

<u>Fiscal Year Ended</u>	<u>Amount</u>
June 30, 2023	\$42,000
June 30, 2024	<u>42,000</u>
Total	<u>\$84,000</u>

Sublease Agreements:

The Organization entered into a sublease agreement with a nonprofit organization which commenced January 1, 2020 and required monthly payments of \$3,100 through June 30, 2020. Monthly rent payments increased to \$3,500 through June 30, 2021, coinciding with the expiration of the lease. Additional rent of \$250 was collected to cover internet and phone expenses. A security deposit of \$3,100 was required. The Organization collected rental income of \$45,000 for the year ended June 30, 2021. The tenant vacated the space in June 2021 and there was no sublease agreement in place during FY 2022.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 12 CONCENTRATIONS

Cash Balances:

Literations maintains its cash balances at one financial institution, which are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. As of June 30, 2022 and 2021, the Organization had deposits of \$194,493 and \$251,443 in excess of the \$250,000 limit, respectively. Although at times the balance in these accounts may exceed the federally insured limit, the Organization has never experienced any losses on uninsured cash balances and Management considers credit risk on cash to be low.

Gifts, Grants and Contributions Receivable:

Approximately 31% and 56% of *Gifts, Grants and Contributions Receivable* represent balances due from one donor and two donors as of June 30, 2022 and 2021, respectively.

NOTE 13 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Organization’s financial assets as of June 30, 2022 and 2021, reduced by amounts which are not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year of the Statements of Financial Position date or when restricted by donors or the Board of Directors for purposes more limited than general expenditures.

	<u>2022</u>	<u>2021</u>
Financial Assets:		
Cash	\$ 399,775	\$411,174
Accounts Receivable, Program Services	33,500	67,766
Gifts, Grants and Contributions Receivable	113,907	104,009
Board Designated Reserves	<u>108,472</u>	<u>81,852</u>
Total Financial Assets as of June 30	655,654	664,801
Less Amounts Not Available to be Used Within One Year:		
Board Designated Reserves	(108,472)	(81,852)
Grants Receivable After One Year	<u>(23,000)</u>	<u>(46,000)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 524,182</u>	<u>\$536,949</u>

For the purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Organization considers all expenditures related to their ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Literations currently has a \$50,000 line-of-credit that can be drawn down to meet cash flow needs (See Note 5). This line-of-credit is for one-time uses to cover delayed receivables and is not used consistently.

The Organization manages its liquid assets with three main objectives – operating within a prudent range of financial soundness and 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. Financial staff forecast cash flow on a daily basis and accurately report on cash projections to the Board of Directors monthly.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

(Continued)

NOTE 13 *(Continued)*

The target minimum for the total of the operating reserve and the board designated fund is equal to three months of average operating costs; approximately \$380,000. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation.

As of June 30, 2022 and 2021, the Organization had \$108,472 and \$81,852, respectively, in a board designated reserve account and board designated investment account. The current strategic goal is to raise \$170,000 through a five-year plan, which would build the reserve funds to 67% towards the overall goal. Strategies have been laid out and budgeted for raising this additional revenue.

Currently, the Organization does not have an operating or working capital reserve. Funds raised through the strategic plan will be distributed between the two reserve fund accounts as decided by the Board of Directors. The finance committee will urge the members to focus on building back the operating reserves first.

NOTE 14 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through November 15, 2022, the date which the financial statements were available for issue, and noted no events which met the criteria for recognition or disclosure.