

The Center for Literacy, Inc.

Financial Statements
Year Ended June 30, 2016



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THE CENTER FOR LITERACY, INC.

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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
The Center for Literacy, Inc.
Philadelphia, Pennsylvania**

We have audited the accompanying financial statements of The Center for Literacy, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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 U.S. generally accepted accounting principles; 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 audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Center for Literacy, Inc., as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited The Center for Literacy, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBD, LLP.

**Philadelphia, Pennsylvania
January 18, 2017**

THE CENTER FOR LITERACY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2016 with comparative totals for 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 107,351	\$ 335,412
Grants and contracts receivable	533,693	248,804
Reserve for unemployment claims	56,428	135,165
Prepaid expenses and other assets	40,412	62,353
Investments	570,572	546,131
Equipment and leasehold improvements	<u>20,146</u>	<u>37,409</u>
Total assets	<u>\$ 1,328,602</u>	<u>\$ 1,365,274</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 31,823	\$ 61,229
Accrued salaries	107,403	95,936
Deferred rent	<u>53,030</u>	<u>42,412</u>
Total liabilities	<u>192,256</u>	<u>199,577</u>
NET ASSETS		
Unrestricted	1,113,096	1,139,884
Temporarily restricted	<u>23,250</u>	<u>25,813</u>
Total net assets	<u>1,136,346</u>	<u>1,165,697</u>
Total liabilities and net assets	<u>\$ 1,328,602</u>	<u>\$ 1,365,274</u>

See accompanying notes

THE CENTER FOR LITERACY, INC.

STATEMENT OF ACTIVITIES

Year ended June 30, 2016 with comparative totals for 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT				
Grants and contracts	\$ 1,915,116	\$ -	\$ 1,915,116	\$ 2,314,943
Contributions	322,947	23,250	346,197	377,560
In-kind contributions	232,847	-	232,847	214,402
Investment income	24,749	-	24,749	9,488
Other income	10,077	-	10,077	1,060
Net assets released from restrictions	25,813	(25,813)	-	-
Total revenue and support	<u>2,531,549</u>	<u>(2,563)</u>	<u>2,528,986</u>	<u>2,917,453</u>
EXPENSES				
Program services	2,296,292	-	2,296,292	2,451,718
General and administrative	119,439	-	119,439	209,070
Fundraising	142,606	-	142,606	99,770
Total expenses	<u>2,558,337</u>	<u>-</u>	<u>2,558,337</u>	<u>2,760,558</u>
CHANGE IN NET ASSETS	(26,788)	(2,563)	(29,351)	156,895
NET ASSETS				
Beginning of year	<u>1,139,884</u>	<u>25,813</u>	<u>1,165,697</u>	<u>1,008,802</u>
End of year	<u>\$ 1,113,096</u>	<u>\$ 23,250</u>	<u>\$ 1,136,346</u>	<u>\$ 1,165,697</u>

See accompanying notes

THE CENTER FOR LITERACY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016 with comparative totals for 2015

	Program Services			Supporting Services		Totals	
	Adult Education	Out of School Youth	English as a Second Language (ESL)	General and Administrative	Fundraising	2016	2015
Salaries	\$ 838,542	\$ 150,854	\$ 215,307	\$ 41,457	\$ 61,143	\$ 1,307,303	\$ 1,654,078
Payroll taxes and benefits	248,716	36,265	52,960	10,726	15,414	364,081	377,625
Communications	40,029	25	3,211	1,359	50	44,674	19,868
Conferences, conventions and meetings	3,616	-	1,268	758	1,167	6,809	12,246
Consulting services, professional fees and contracted program services	112,141	5,355	13,471	25,930	20,460	177,357	87,916
Depreciation	-	-	-	17,263	-	17,263	19,524
Equipment rental	40,926	4,223	8,348	413	242	54,152	51,904
Insurance	25,133	2,180	-	984	1,447	29,744	10,646
Volunteer tutor and intern services	77,180	-	-	-	-	77,180	115,034
Instructional supplies	19,655	321	4,372	4,062	16,221	44,631	31,808
Office expenses	6,899	-	1,077	1,358	1,662	10,996	26,688
Other expenses	3,529	1,248	774	12,985	11,851	30,387	24,900
Rent	263,214	1,395	93,708	362	930	359,609	278,427
Technology upgrade and equipment	11,173	-	4,851	743	10,483	27,250	37,481
Travel	3,342	72	912	1,039	1,536	6,901	12,413
Total expenses	\$ 1,694,095	\$ 201,938	\$ 400,259	\$ 119,439	\$ 142,606	\$ 2,558,337	\$ 2,760,558

See accompanying notes

THE CENTER FOR LITERACY, INC.

STATEMENT OF CASH FLOWS

Year ended June 30, 2016 with comparative totals for 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (29,351)	\$ 156,895
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	17,263	19,524
Unrealized (gain) loss on investments	(10,719)	4,952
(Increase) decrease in		
Grants and contracts receivable	(284,889)	(141,124)
Reserve for unemployment claims	78,737	(38,459)
Prepaid expenses and other assets	21,941	(4,997)
Increase (decrease) in		
Accounts payable and accrued expenses	(29,406)	2,587
Accrued salaries	11,467	13,344
Deferred rent	<u>10,618</u>	<u>10,606</u>
Net cash provided by (used for) operating activities	<u>(214,339)</u>	<u>23,328</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and leasehold improvements	-	(2,035)
Purchase of investments	(13,722)	(26,345)
Proceeds from sale of investments	<u>-</u>	<u>12,080</u>
Net cash used for investing activities	<u>(13,722)</u>	<u>(16,300)</u>
Change in cash	(228,061)	7,028
CASH		
Beginning of year	<u>335,412</u>	<u>328,384</u>
End of year	<u>\$ 107,351</u>	<u>\$ 335,412</u>

See accompanying notes

THE CENTER FOR LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(1) NATURE OF OPERATIONS

Center for literacy ("**CFL**" or the "**Organization**") has been unleashing the power of literacy to change lives since 1968. Philadelphia's oldest and largest adult literacy organization not only teaches Philadelphians the Three R's of reading, writing, and arithmetic, but helps adults apply these skills to every aspect of their lives. Connecting our basic skills education program to the contexts of parenting, finance, health, and work leads to stronger families, businesses, and ultimately a stronger Philadelphia.

While carrying out our mission with passion and compassion, CFL provides the highest level of responsible stewardship of funds received from government contracts, and donations from corporations, foundations and individuals.

CFL provides the following programs:

Adult Education

CFL's community classes improve the literacy skills of our learners and serve as a pipeline into our preparation for the GED[®] test classes. Classes are designed to improve learners' reading, writing, language, math, and/or technology skills. Lessons may be delivered individually, in small groups, or as a whole class, and address goal-specific objectives that are defined during the orientation process.

Out of School Youth

CFL's youth programming is done in partnership with the Philadelphia Youth Network's ("**PYN**") E3 Power Centers, where CFL literacy specialists provide specific educational and literacy coaching to a targeted in-school and out-of-school population, 16-21 years of age. The E3 Centers partner with multiple organizations to offer basic skill-building experiences for youth that have dropped out of school or are returning from juvenile placement as well as ongoing case management services.

English as a Second Language

CFL holds English as a second language ("**ESL**") classes throughout Philadelphia. Offerings include beginning, intermediate, and advanced classes that progressively address the basics of the English language and the concept of civic responsibility. Many of the ESL learners apply for citizenship, and CFL's classes support their application.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("**GAAP**").

Basis of Presentation

The Organization reports information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets

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

Temporarily restricted net assets

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

THE CENTER FOR LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Permanently restricted net assets

Net assets that are subject to donor-imposed restrictions that such assets be maintained indefinitely.

There were no permanently restricted net assets as of June 30, 2016.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Grants and contracts

CFL receives funding from governmental agencies under cost reimbursement grants and contracts. Grant and contract revenue from government sources is recognized as the related expenses are incurred.

Grants and contracts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with funding sources having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial. CFL does not charge interest on outstanding balances.

The contracts under which the CFL conducts its programs contain provisions defining costs, which are allowable and reimbursable with the program. Program billings are subject to audit by various governmental funding sources. Audits of these billings may result in adjustments for disallowances. No provision has been made for any liabilities that may arise from such audits.

Reserve for Unemployment Claims

CFL is primarily self-insured for certain unemployment costs. The unemployment claims are administered by Unemployment Services Trust ("**UST**"). CFL has an interest bearing proprietary reserve account held by UST, to cover all unemployment claims that have been submitted to and processed by the Commonwealth of Pennsylvania for former CFL employees, as well as estimated incurred, but not reported claims. On a quarterly basis, CFL is required to deposit funds into this account to cover potential future claims. The balance of the proprietary reserve account and the corresponding liability for outstanding claims as of June 30, 2016 are included on the statement of financial position.

Investments and Investment Income

Investments in debt and equity securities with readily determinable fair values are reported at fair value as determined by quoted market prices with gains and losses included in the statement of activities. Shares of mutual funds are valued at the net asset value of shares held by CFL at year end. Dividend and interest income is recorded as earned. Donated securities are recorded at fair value at the date of receipt and sold as soon as possible.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

THE CENTER FOR LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the Organization's own assumptions.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are carried at cost, net of accumulated depreciation, if purchased and at fair value at the date contributed if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. CFL capitalizes all equipment and leasehold improvements in excess of \$5,000 with the exception of computer equipment which is capitalized regardless of threshold.

Deferred Rent

Deferred rent is recorded and amortized to the extent the total minimum rental payments allocated to the current period on the straight-line basis differ from the cash payments required.

In-Kind Contributions

CFL recognizes revenue for donated services when they require specialized skills which would need to be purchased if they were not donated. Donated services are recorded as both revenue and expenses in the accompanying statement of activities at their estimated value at the date of receipt.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions whose restrictions are satisfied in the same period are reported as unrestricted.

Unconditional contributions are recognized when the related promise to give is received. Conditional contributions are recognized when the conditions are satisfied.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services based on estimates made by management.

Income Tax Status

CFL is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to CFL's tax-exempt purpose is subject to taxation as unrelated business income. In addition, CFL qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain income tax positions taken on their tax returns. GAAP prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. CFL believes that it had no uncertain tax positions as defined in GAAP.

THE CENTER FOR LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Concentration of Credit, Market and Revenue Risk

Cash and Grants and Contracts receivable

Cash and grants and contracts receivable potentially subject CFL to concentrations of credit risk. CFL maintains its cash at various high quality institutions. At times, such deposits may exceed federally-insured limits. Grants and contracts receivable are due from governmental agencies and are expected to be collected in 2017.

Investments

CFL invests in a professionally-managed portfolio that contains various types of securities (**See Note 4**). Such investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the financial statements.

Revenue

CFL received 75% of its total revenue and support from two funding sources for the year ended June 30, 2016. CFL received 78% of its total revenue and support from the same two funding sources for the year ended June 30, 2015.

Summarized Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with CFL's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

(3) GRANTS AND CONTRACTS RECEIVABLE

CFL's grants and contracts receivable consisted of the following at June 30,:

	<u>2016</u>	<u>2015</u>
Pennsylvania Department of Education	\$396,971	\$ -
Philadelphia Youth Network	78,729	227,047
Other	<u>57,993</u>	<u>21,757</u>
	<u>\$533,693</u>	<u>\$248,804</u>

(4) INVESTMENTS

The fair value of investments at June 30, is summarized as follows:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 3,283	\$ 3,199
Mutual funds		
Fixed income	555,354	531,914
Equities	<u>11,935</u>	<u>11,018</u>
	<u>\$570,572</u>	<u>\$546,131</u>

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NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Investment income was comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 14,030	\$ 14,440
Unrealized gain (loss)	<u>10,719</u>	<u>(4,952)</u>
	<u>\$ 24,749</u>	<u>\$ 9,488</u>

Investments are measured at fair value using Level 1 (quoted prices in active markets) valuation inputs.

(5) EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consisted of the following at June 30,:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 54,601	\$ 54,601
Equipment	72,526	72,526
Leasehold improvements	<u>7,942</u>	<u>7,942</u>
	135,069	135,069
Less: accumulated depreciation	<u>(114,923)</u>	<u>(97,660)</u>
	<u>\$ 20,146</u>	<u>\$ 37,409</u>

Depreciation was \$17,263 and \$19,524, respectively, for the years ended June 30, 2016 and 2015.

(6) LINE OF CREDIT

CFL has an available line of credit in the amount of \$400,000, which bears interest at a variable rate per annum equal to 0.5% in excess of the Wall Street Prime Rate and expires December 1, 2017. The line of credit is secured by substantially all of the assets of CFL. No advances were outstanding at June 30, 2016 and 2015.

(7) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes and periods:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance</u> <u>June 30, 2016</u>
Purpose restrictions				
Dollar General – Fast Track GED classes	\$ -	\$ 8,000	\$ -	\$ 8,000
Case management services for students	10,000	-	(10,000)	-
Slipstream to Mainstream	10,813	-	(10,813)	-
Available in future period	<u>5,000</u>	<u>15,250</u>	<u>(5,000)</u>	<u>15,250</u>
	<u>\$25,813</u>	<u>\$23,250</u>	<u>\$ 25,813</u>	<u>\$23,250</u>

THE CENTER FOR LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(8) IN-KIND CONTRIBUTIONS

In-kind contributions for the year ended June 30, consisted of the following:

	<u>2016</u>	<u>2015</u>
Consulting services, professional fees and contracted program services (donated legal)	\$ -	\$ 9,093
Volunteer tutor services and intern services	77,180	115,034
Rent	<u>155,667</u>	<u>90,275</u>
	<u>\$232,847</u>	<u>\$214,402</u>

All in-kind contributions are included as program service expenses on the statement of functional expenses.

(9) OPERATING LEASES

The Organization leases its administrative office and several program locations under operating leases which expire at various dates through 2021. Rent expense for these facilities was \$203,942 for 2016 and \$188,152 for 2015. Minimum annual lease commitments under non-cancelable leases with initial or remaining terms in excess of one year are as follows:

<u>Years ending June 30,</u>	
2017	\$182,762
2018	182,762
2019	180,302
2020	180,302
2021	<u>180,302</u>
	<u>\$906,430</u>

(10) EMPLOYEE 403b PLAN

The Organization has a 403b plan for all eligible employees. Employees may contribute a percentage of their salary, up to federal limits. The Organization does not make contributions to the plan.

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 18, 2017, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2016 that would require recognition or disclosure in the financial statements.