

The Center for Literacy, Inc.

Financial Statements
Year Ended June 30, 2017



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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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBD, LLP.

**Philadelphia, Pennsylvania
November 27, 2017**

THE CENTER FOR LITERACY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017 with comparative totals for 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash | \$ 256,175 | \$ 107,351 |
| Grants and contracts receivable | 346,817 | 533,693 |
| Reserve for unemployment claims | 51,209 | 56,428 |
| Prepaid expenses and other assets | 71,870 | 40,412 |
| Investments | 577,996 | 570,572 |
| Equipment and leasehold improvements | <u>6,032</u> | <u>20,146</u> |
| Total assets | <u>\$ 1,310,099</u> | <u>\$ 1,328,602</u> |
| | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 13,328 | \$ 31,823 |
| Accrued salaries | 112,297 | 107,403 |
| Deferred rent | <u>42,424</u> | <u>53,030</u> |
| Total liabilities | <u>168,049</u> | <u>192,256</u> |
| | | |
| NET ASSETS | | |
| Unrestricted | | |
| Operating | 481,711 | 542,524 |
| Board designated reserves | <u>577,996</u> | <u>570,572</u> |
| Total unrestricted | 1,059,707 | 1,113,096 |
| Temporarily restricted | <u>82,343</u> | <u>23,250</u> |
| Total net assets | <u>1,142,050</u> | <u>1,136,346</u> |
| | | |
| Total liabilities and net assets | <u>\$ 1,310,099</u> | <u>\$ 1,328,602</u> |

See accompanying notes

THE CENTER FOR LITERACY, INC.

STATEMENT OF ACTIVITIES

Year ended June 30, 2017 with comparative totals for 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> | |
|---------------------------------------|---------------------|-----------------------------------|---------------------|---------------------|
| | | | <u>2017</u> | <u>2016</u> |
| REVENUE AND SUPPORT | | | | |
| Grants and contracts | \$ 1,948,312 | \$ - | \$ 1,948,312 | \$ 1,915,116 |
| Contributions | 362,870 | 105,510 | 468,380 | 346,197 |
| In-kind contributions | 453,763 | - | 453,763 | 232,847 |
| Investment income | 9,801 | - | 9,801 | 24,749 |
| Other income | - | - | - | 10,077 |
| Net assets released from restrictions | 46,417 | (46,417) | - | - |
| Total revenue and support | <u>2,821,163</u> | <u>59,093</u> | <u>2,880,256</u> | <u>2,528,986</u> |
| EXPENSES | | | | |
| Program services | 2,369,073 | - | 2,369,073 | 2,296,292 |
| General and administrative | 100,565 | - | 100,565 | 119,439 |
| Fundraising | 404,914 | - | 404,914 | 142,606 |
| Total expenses | <u>2,874,552</u> | <u>-</u> | <u>2,874,552</u> | <u>2,558,337</u> |
| CHANGE IN NET ASSETS | (53,389) | 59,093 | 5,704 | (29,351) |
| NET ASSETS | | | | |
| Beginning of year | <u>1,113,096</u> | <u>23,250</u> | <u>1,136,346</u> | <u>1,165,697</u> |
| End of year | <u>\$ 1,059,707</u> | <u>\$ 82,343</u> | <u>\$ 1,142,050</u> | <u>\$ 1,136,346</u> |

See accompanying notes

THE CENTER FOR LITERACY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2017 with comparative totals for 2016

| | <u>Program Services</u> | | | <u>Supporting Services</u> | | <u>Totals</u> | |
|--|-------------------------|----------------------------|---|-----------------------------------|--------------------|---------------------|---------------------|
| | <u>Adult Education</u> | <u>Out of School Youth</u> | <u>English as a Second Language (ESL)</u> | <u>General and Administrative</u> | <u>Fundraising</u> | <u>2017</u> | <u>2016</u> |
| Salaries | \$ 825,580 | \$ 231,470 | \$ 232,047 | \$ 35,552 | \$ 72,863 | \$ 1,397,512 | \$ 1,307,303 |
| Payroll taxes and benefits | 234,035 | 64,674 | 50,647 | 7,445 | 13,700 | 370,501 | 364,081 |
| Communications | 10,678 | 177 | 3,539 | 2,910 | 597 | 17,901 | 44,674 |
| Conferences, conventions and meetings | 1,075 | - | 471 | 903 | 100 | 2,549 | 6,809 |
| Consulting services, professional fees and contracted program services | 103,766 | 5,416 | 25,491 | 9,529 | 253,949 | 398,151 | 177,357 |
| Depreciation | - | - | - | 14,114 | - | 14,114 | 17,263 |
| Equipment rental | 20,106 | 239 | 7,992 | 1,668 | 794 | 30,799 | 54,152 |
| Insurance | 27,475 | 1,733 | 6,022 | 596 | 1,091 | 36,917 | 29,744 |
| Volunteer tutor and intern services | 171,114 | - | - | - | - | 171,114 | 77,180 |
| Instructional supplies | 25,458 | 2,253 | 4,318 | 340 | 9,800 | 42,169 | 44,631 |
| Office expenses | 4,401 | 200 | 962 | 2,938 | 610 | 9,111 | 10,996 |
| Other expenses | 3,665 | 1,017 | 262 | 19,088 | 31,081 | 55,113 | 30,387 |
| Rent | 146,240 | 6,521 | 112,177 | 4,415 | 5,979 | 275,332 | 359,609 |
| Technology upgrade and equipment | 20,878 | 6,251 | 8,011 | 697 | 14,092 | 49,929 | 27,250 |
| Travel | 886 | 529 | 1,297 | 370 | 258 | 3,340 | 6,901 |
| Total expenses | \$ 1,595,357 | \$ 320,480 | \$ 453,236 | \$ 100,565 | \$ 404,914 | \$ 2,874,552 | \$ 2,558,337 |

See accompanying notes

THE CENTER FOR LITERACY, INC.

STATEMENT OF CASH FLOWS

Year ended June 30, 2017 with comparative totals for 2016

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| <i>Change in net assets</i> | \$ 5,704 | \$ (29,351) |
| Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities | | |
| Depreciation | 14,114 | 17,263 |
| Unrealized (gain) loss on investments | 3,835 | (10,719) |
| (Increase) decrease in | | |
| Grants and contracts receivable | 186,876 | (284,889) |
| Reserve for unemployment claims | 5,219 | 78,737 |
| Prepaid expenses and other assets | (31,458) | 21,941 |
| Increase (decrease) in | | |
| Accounts payable and accrued expenses | (18,495) | (29,406) |
| Accrued salaries | 4,894 | 11,467 |
| Deferred rent | <u>(10,606)</u> | <u>10,618</u> |
| Net cash provided by (used for) operating activities | <u>160,083</u> | <u>(214,339)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | <u>(11,259)</u> | <u>(13,722)</u> |
| Change in cash | 148,824 | (228,061) |
| CASH | | |
| Beginning of year | <u>107,351</u> | <u>335,412</u> |
| End of year | <u>\$ 256,175</u> | <u>\$ 107,351</u> |

See accompanying notes

THE CENTER FOR LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(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, 2017

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, 2017.

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. 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, 2017 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, 2017

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.

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.

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, 2017

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 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 2018.

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 69% of its total revenue and support from two funding sources for the year ended June 30, 2017. CFL received 75% of its total revenue and support from the same two funding sources for the year ended June 30, 2016.

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, 2016, 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>2017</u> | <u>2016</u> |
|--------------------------------------|------------------|------------------|
| Pennsylvania Department of Education | \$ - | \$396,971 |
| Philadelphia Youth Network | 289,584 | 78,729 |
| Other | <u>57,233</u> | <u>57,993</u> |
| | <u>\$346,817</u> | <u>\$533,693</u> |

(4) INVESTMENTS

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

| | <u>2017</u> | <u>2016</u> |
|--------------------|------------------|------------------|
| Money market funds | \$ 4,441 | \$ 3,283 |
| Mutual funds | | |
| Fixed income | 560,263 | 555,354 |
| Equities | <u>13,292</u> | <u>11,935</u> |
| | <u>\$577,996</u> | <u>\$570,572</u> |

THE CENTER FOR LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Investment income was comprised of the following:

| | <u>2017</u> | <u>2016</u> |
|------------------------|-----------------|------------------|
| Interest and dividends | \$ 13,636 | \$ 14,030 |
| Unrealized gain (loss) | <u>(3,835)</u> | <u>10,719</u> |
| | <u>\$ 9,801</u> | <u>\$ 24,749</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>2017</u> | <u>2016</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>(129,037)</u> | <u>(114,923)</u> |
| | <u>\$ 6,032</u> | <u>\$ 20,146</u> |

Depreciation was \$14,114 and \$17,263, respectively, for the years ended June 30, 2017 and 2016.

(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, 2017 and 2016.

(7) TEMPORARILY RESTRICTED NET ASSETS

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

| | <u>Balance</u> <u>June 30, 2016</u> | <u>Additions</u> | <u>Releases</u> | <u>Balance</u> <u>June 30, 2017</u> |
|------------------------------|--|------------------|-------------------|--|
| Purpose restrictions | | | | |
| English as a Second Language | | | | |
| Programming | \$ 8,000 | \$ 73,010 | \$(26,584) | \$54,426 |
| Available in future period | <u>15,250</u> | <u>32,500</u> | <u>(19,833)</u> | <u>27,917</u> |
| | <u>\$23,250</u> | <u>\$130,510</u> | <u>\$(71,417)</u> | <u>\$82,343</u> |

THE CENTER FOR LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(8) IN-KIND CONTRIBUTIONS

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

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| Consulting services | \$206,400 | \$ - |
| Volunteer tutor services and intern services | 171,114 | 77,180 |
| Rent | <u>76,249</u> | <u>155,667</u> |
| | <u>\$453,763</u> | <u>\$232,847</u> |

In-kind volunteer tutor services and intern services and rent are included as program service expenses on the statement of functional expenses. In-kind consulting services are included as fundraising 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 \$209,691 for 2017 and \$203,942 for 2016. 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> | |
|------------------------------|------------------|
| 2018 | \$182,762 |
| 2019 | 180,302 |
| 2020 | 180,302 |
| 2021 | <u>180,302</u> |
| | <u>\$723,668</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 November 27, 2017, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2017 that would require recognition or disclosure in the financial statements.