

LITERACY SOURCE,
A COMMUNITY LEARNING CENTER

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2018 and 2017

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LUBY & THOMSON, PLLC
C e r t i f i e d P u b l i c A c c o u n t a n t s

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Literacy Source, A Community Learning Center
Seattle, Washington

We have audited the accompanying financial statements of Literacy Source, A Community Learning Center (also referred to as Literacy Source) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility


Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the 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 as 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 Literary Source as of June 30, 2018 and 2017, 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.

A handwritten signature in black ink that reads "Luby & Thomson". The signature is written in a cursive, flowing style.

Luby & Thomson, PLLC
Certified Public Accountants
Seattle, WA
December 20, 2018

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>ASSETS</u>	
	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	\$ 263,913	\$ 214,829
Accounts receivable	136,267	115,789
Prepaid expenses	13,607	9,550
Total current assets	<u>413,787</u>	<u>340,168</u>
Equipment and leasehold improvements	181,049	181,049
Accumulated depreciation	<u>(76,812)</u>	<u>(42,673)</u>
Net fixed assets	104,237	138,376
Deposits	<u>6,713</u>	<u>6,463</u>
TOTAL ASSETS	<u>\$ 524,737</u>	<u>\$ 485,007</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES:		
Accounts payable	\$ 9,812	\$ 8,929
Accrued payroll liabilities	15,905	12,866
Current portion of straight line lease liability	7,132	4,964
Total current liabilities	<u>32,849</u>	<u>26,759</u>
Straight line lease liability, net of current portion	12,776	19,908
Deferred copier lease incentive	3,000	-
TOTAL LIABILITIES	<u>48,625</u>	<u>46,667</u>
NET ASSETS:		
Unrestricted	455,839	436,453
Temporarily restricted	20,273	1,887
Total net assets	<u>476,112</u>	<u>438,340</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 524,737</u>	<u>\$ 485,007</u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENTS OF ACTIVITIES AND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
UNRESTRICTED NET ASSETS		
Revenue and support:		
Washington State Board for Community and Technical Colleges grants	\$ 192,878	\$ 122,558
Other government funding	397,578	245,097
Foundation grants	79,250	83,193
Contract revenue	33,061	85,164
Contributions	259,472	266,147
Interest income	788	722
In-kind donations	84,361	88,917
	1,047,388	891,798
Net assets released from restrictions	1,614	19,124
Total unrestricted revenue and support	1,049,002	910,922
Expenses:		
Program service	922,736	838,302
Management and general	56,442	50,398
Fundraising	50,438	24,773
	1,029,616	913,473
Increase (Decrease) in unrestricted net assets	19,386	(2,551)
TEMPORARILY RESTRICTED NET ASSETS		
Foundation grants	20,000	1,887
Net assets released from restriction	(1,614)	(19,124)
	18,386	(17,237)
Increase (Decrease) in temporarily restricted net assets	18,386	(17,237)
INCREASE (DECREASE) IN NET ASSETS	37,772	(19,788)
NET ASSETS, beginning of year	438,340	458,128
NET ASSETS, end of year	\$ 476,112	\$ 438,340

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

	Program Service	Management & General	Fundraising	Total
Salaries and wages	\$ 530,040	\$ 14,829	\$ 26,844	\$ 571,713
AmeriCorp	17,133	-	-	17,133
Payroll taxes and benefits	93,328	3,611	666	97,605
Total payroll & related expenses	<u>640,501</u>	<u>18,440</u>	<u>27,510</u>	<u>686,451</u>
Occupancy	78,399	4,592	335	83,326
Depreciation	32,090	2,048	-	34,138
Tech supplies & licenses	26,826	962	-	27,788
Contract services	9,740	11,100	-	20,840
Event expenses	-	-	18,134	18,134
Supplies	9,427	962	247	10,636
Equipment leases & repair	10,299	-	94	10,393
Educational materials	7,997	-	-	7,997
Professional fees	-	7,700	-	7,700
Telephone and internet	6,117	389	-	6,506
Insurance	3,206	2,098	-	5,304
Student success	4,415	-	-	4,415
Dues and licenses	2,818	165	1,328	4,311
Travel and transportation	3,484	25	5	3,514
Meals & events	995	2,092	240	3,327
Education/Training/Outreach	2,265	596	-	2,861
Bank service charges	175	33	2,426	2,634
Staff professional training	1,875	600	-	2,475
Childcare	1,614	-	-	1,614
Postage and delivery	632	140	119	891
In-kind expenses	79,861	4,500	-	84,361
Total Expense	<u>\$ 922,736</u>	<u>\$ 56,442</u>	<u>\$ 50,438</u>	<u>\$ 1,029,616</u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Program Service</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 469,745	\$ 18,076	\$ 3,647	\$ 491,468
AmeriCorp	15,276	-	-	15,276
Payroll taxes and benefits	75,821	2,245	412	78,478
Total payroll & related expenses	<u>560,842</u>	<u>20,321</u>	<u>4,059</u>	<u>585,222</u>
Occupancy	76,450	4,478	323	81,251
Depreciation	32,090	2,048	-	34,138
Contract services	16,065	3,000	850	19,915
Event expenses	-	-	16,008	16,008
Supplies	10,134	544	815	11,493
Equipment leases & repair	11,295	-	-	11,295
Tech supplies & licenses	9,931	571	138	10,640
Educational materials	9,719	-	-	9,719
Professional fees	-	8,870	-	8,870
Telephone and internet	8,114	516	-	8,630
Travel and transportation	5,289	268	-	5,557
Insurance	4,897	-	-	4,897
Staff professional training	2,364	470	-	2,834
Education/Training/Outreach	1,409	808	90	2,307
Dues and licenses	1,872	-	361	2,233
Childcare	2,113	-	-	2,113
Student success	2,085	-	-	2,085
Bank service charges	80	10	1,994	2,084
Meals & events	249	1,755	25	2,029
Postage and delivery	1,062	64	110	1,236
In-kind expenses	82,242	6,675	-	88,917
Total Expense	<u>\$ 838,302</u>	<u>\$ 50,398</u>	<u>\$ 24,773</u>	<u>\$ 913,473</u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 37,772	\$ (19,788)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	34,138	34,138
(Increase) decrease in accounts receivable	(20,478)	(21,056)
(Increase) decrease in prepaid expenses	(4,057)	1,247
(Increase) decrease in deposits	(250)	-
Increase (decrease) in accounts payable	883	6,027
Increase (decrease) in accrued payroll expense	3,040	1,130
Increase (decrease) in straight line lease liability	(4,964)	(2,852)
Increase (decrease) in deferred copier lease incentive	3,000	-
Net cash provided (used) by operating activities	49,084	(1,154)
NET INCREASE (DECREASE) IN CASH	49,084	(1,154)
CASH AND CASH EQUIVALENTS, beginning of the period	214,829	215,983
CASH AND CASH EQUIVALENTS, end of the period	\$ 263,913	\$ 214,829

SUPPLEMENTAL SCHEDULE OF CASH FLOWS INFORMATION

Cash paid during the year for:

Interest	\$ -	\$ -
Federal Income Taxes	\$ -	\$ -

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS June 30, 2018 and 2017

Note 1. **Organization and Significant Accounting Policies**

Literacy Source, A Community Learning Center, (the Organization), established in 2001, is a nonprofit corporation located in Seattle, Washington. The Organization provides a safe, non-judgmental educational environment where adults can improve basic reading, writing, computing, English speaking and life skills. The Organization assists adults in improving their basic life skills with the assistance of community volunteers, trained and supported by professional staff and consultants, who effectively facilitate this improvement. The Organization encourages and celebrates the challenge of developing the habit of independent, life-long learning. Services are provided at no cost.

The Organization has been providing unique and responsive adult literacy services since 1986, when it was a part of another nonprofit organization. During the first few years, they focused primarily on adult basic literacy instruction in Seattle's North End. Today, services also include English for Speakers of other Languages (ESOL), one-on-one tutoring at all levels, digital literacy, workplace basic skills, citizenship and high school completion classes and support.

The Organization's mission is to build a literate community by providing learner-centered instruction to adults in English literacy and basic life skills. Literacy Source believes that all adults can improve their basic life skills and that community volunteers, trained and supported by professional staff, can make this happen. They welcome the challenge of developing the habit of independent lifelong learning.

The Organization's story unfolds each day in their office – and in homes, community centers, and workplaces around Seattle and the Puget Sound region – as adult learners work towards literacy, language skills, citizenship, better jobs and better lives. They make a difference, to students, volunteers, families, employers and communities.

Basis of presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation requires the organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. These classes of net assets are further described as follows:

- *Unrestricted Net Assets* – Support received without donor restriction is considered unrestricted.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS June 30, 2018 and 2017

Note 1. Organization and Significant Accounting Policies (continued)

- *Temporarily Restricted Net Assets* – Support received subject to donor-imposed time restrictions or stipulations for a particular purpose is considered temporarily restricted. When donor time restrictions expire or when donor program restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.
- *Permanently Restricted Net Assets* – Support received in the form of endowment or sustaining funds is considered permanently restricted. The principal of permanently restricted contributions is restricted in perpetuity and the income is utilized for the purposes specified by the donor.

The Organization has no permanently restricted net assets.

Cash and cash equivalents: For purposes of the statements of financial position and cash flows, the Organization considers all highly liquid investments, which are readily convertible into known amounts of cash, have a maturity of three months or less, and have no temporary or permanent restrictions to be cash equivalents.

Concentrations of Credit Risk: The Organization maintains its cash accounts in financial institutions in Seattle, Washington. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank. Cash balances may exceed insured limits throughout the year. The Organization has not experienced losses in such accounts.

Accounts receivable: Accounts receivable are stated at the amount management expects to collect from outstanding balances within the next year. Management does not provide for uncollectible accounts as they believe all accounts are collectible.

Equipment: Equipment is stated at cost, or if donated, at estimated fair value at date of donation. Long-lived assets with original purchase price greater than \$2,000 are capitalized and depreciated using the straight-line method over the estimated useful lives of the asset of 5 to 7 years.

Recognition of donor restricted contributions: Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1. Organization and Significant Accounting Policies (continued)

Contributed services: Many citizens and Board members have made significant contributions of time to the Organization's program, policy-making, fundraising, and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services under accounting principles generally accepted in the United States of America and, accordingly, is not reflected in the accompanying financial statements.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reporting amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expense: The costs of providing the various program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Income Tax Status: The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for federal income taxes has been made in the accompanying financial statements. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Organization files information and tax returns in the U.S. federal jurisdiction, and in state and local jurisdictions. The Organization has been subject to U.S. federal, state and local examinations by tax authorities for the current year and certain prior years, based on applicable laws and regulations, and has determined there are no uncertain tax positions for those years. The accompanying financial statements contain no interest or penalties with respect to federal income taxes for the years ended June 30, 2018 and 2017, respectively.

Cost reimbursement contracts: Revenues under cost-reimbursement type contracts are recognized based on billings submitted for reimbursement and are subject to audit and retroactive adjustments made by the funding agencies. No adjustments were made for the years ended June 30, 2018 or 2017, respectively.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 2. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Open Door Project	\$ 20,000	\$ -
Childcare Supplies and Furnishings	273	1,887
	<u>\$ 20,273</u>	<u>\$ 1,887</u>

Note 3. Operating Leases

The Organization leases space in Lake City for offices and classrooms. The rental lease is for five years, which commenced on November 1, 2015. The lease included a free rent period and escalating rents. Straight line lease liability is included in the balance sheet and is being amortized over the life of the lease. Rent expense under this lease was \$67,428 and \$67,428 for the years ended June 30, 2018 and 2017, respectively.

The Organization leases a copier under a five year operating lease beginning in June 2018. The lease requires monthly payments of \$750 plus printing overages. The Organization received \$3,000 upon signing of this lease as an incentive to replace the previous copier lease. The incentive is being amortized over the life of the new lease. Rent expense, including printing overages, relating to this lease and the previous copier lease was \$10,299 and \$11,295 for the years ended June 30, 2018 and 2017, respectively.

Future minimum payments under these leases are as follows for the years ended June 30:

2019	\$ 83,560
2020	85,800
2021	34,852
2022	9,000
2023	8,250
	<u>\$ 221,462</u>

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 4. Economic Dependence

The Washington State Board of Community and Technical Colleges provided approximately 18% and 14% of the total support and revenue for the years ended June 30, 2018 and 2017, respectively.

One additional government program provided approximately 13% of the total support and revenue for the year ended June 30, 2018.

Note 5. In-kind Contributions

Contributed goods and services are recorded at rates that would have been paid for similar good and services purchased. The Organization received in-kind donations of \$84,361 and \$88,917 in AmeriCorps services, VISTA services, and computer technical support for the years ended June 30, 2018 and 2017, respectively.

Note 6. Retirement Plan

The Organization sponsors a 403(b) retirement plan for eligible employees. Under the Plan, the Organization matches employee contributions up to 3% of gross salary for eligible employees. Employer contributions totaled \$10,545 and \$7,277 for the years ended June 30, 2018 and 2017, respectively.

Note 7. Reclassifications

Certain amounts from the June 30, 2017 financial statements were reclassified to conform to the current year presentation. These reclassifications have no impact on net income as previously stated.

Note 8. Subsequent Events

Literacy Source has evaluated subsequent events through the date these financial statements were available to be issued on December 20, 2018.