

LITERACY SOURCE,  
A COMMUNITY LEARNING CENTER

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FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

***Emphasis of Matter***

As discussed in Note 2 to the financial statements, in the year ended June 30, 2019, Literacy Source adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Luby & Thomson".

Luby & Thomson, PLLC  
Certified Public Accountants  
Seattle, WA  
January 30, 2020

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2019 AND 2018

	<u>ASSETS</u>	
	2019	2018
CURRENT ASSETS:		
Cash and cash equivalents	\$ 216,303	\$ 263,913
Accounts receivable	177,288	136,267
Prepaid expenses	10,960	13,607
Total current assets	<u>404,551</u>	<u>413,787</u>
Equipment and leasehold improvements	181,049	181,049
Accumulated depreciation	<u>(110,950)</u>	<u>(76,812)</u>
Net fixed assets	70,099	104,237
Deposits	<u>6,713</u>	<u>6,713</u>
TOTAL ASSETS	<u>\$ 481,363</u>	<u>\$ 524,737</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 9,939	\$ 9,812
Accrued payroll liabilities	22,832	15,905
Current portion of straight line lease liability	9,372	7,132
Total current liabilities	<u>42,143</u>	<u>32,849</u>
Straight line lease liability, net of current portion	3,404	12,776
Deferred copier lease incentive	2,400	3,000
TOTAL LIABILITIES	<u>47,947</u>	<u>48,625</u>
NET ASSETS:		
Without donor restrictions	413,225	455,839
With donor restrictions	20,191	20,273
Total net assets	<u>433,416</u>	<u>476,112</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 481,363</u>	<u>\$ 524,737</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, 2019 AND 2018**

	2019	2018
<b>WITHOUT DONOR RESTRICTIONS</b>		
Revenue and support:		
Washington State Board for Community and Technical Colleges grants	\$ 227,274	\$ 192,878
Other government funding	404,810	397,578
Foundation grants	45,400	79,250
Contract revenue	46,482	33,061
Contributions	274,352	259,472
Interest income	785	788
In-kind donations	136,727	84,361
	1,135,830	1,047,388
Net assets released from restrictions	20,273	1,614
<b>Total revenue and support without donor restrictions</b>	<b>1,156,103</b>	<b>1,049,002</b>
Expenses:		
Program service	1,029,517	922,736
Management and general	87,637	56,442
Fundraising	81,563	50,438
	1,198,717	1,029,616
<b>Total expenses</b>	<b>1,198,717</b>	<b>1,029,616</b>
<b>Increase (Decrease) in net assets without donor restrictions</b>	<b>(42,614)</b>	<b>19,386</b>
<b>WITH DONOR RESTRICTIONS</b>		
Foundation grants	20,000	20,000
Contributions	191	-
Net assets released from restriction	(20,273)	(1,614)
	(82)	18,386
<b>Increase (Decrease) in net assets with donor restrictions</b>	<b>(82)</b>	<b>18,386</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(42,696)</b>	<b>37,772</b>
<b>NET ASSETS, beginning of year</b>	<b>476,112</b>	<b>438,340</b>
<b>NET ASSETS, end of year</b>	<b>\$ 433,416</b>	<b>\$ 476,112</b>

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, 2019**

	Program Service	Management & General	Fundraising	Total
Salaries and wages	\$ 588,628	\$ 11,775	\$ 50,284	\$ 650,687
AmeriCorp	31,867	-	-	31,867
Payroll taxes and benefits	92,690	2,065	9,258	104,013
Total payroll & related expenses	713,185	13,840	59,542	786,567
Occupancy	75,906	7,178	524	83,608
Depreciation	32,090	2,048	-	34,138
Professional fees	-	30,630	-	30,630
Contract services	8,844	9,754	-	18,598
Event expenses	-	-	16,098	16,098
Tech supplies & licenses	3,934	8,629	-	12,563
Equipment leases & repair	9,068	2,153	113	11,334
Childcare	10,390	-	-	10,390
Supplies	7,796	1,877	33	9,706
Educational materials	8,127	-	-	8,127
Telephone and internet	6,862	448	149	7,459
Travel and transportation	6,000	16	16	6,032
Dues and licenses	584	2,739	1,729	5,052
Insurance	2,793	2,139	-	4,932
Meals & events	2,552	1,881	-	4,433
Education/Training/Outreach	2,763	461	-	3,224
Student success	2,708	-	-	2,708
Bank service charges	-	106	2,171	2,277
Staff professional training	1,320	823	-	2,143
Bad debt expense	-	483	880	1,363
Postage and delivery	253	47	308	608
In-kind expenses	134,342	2,385	-	136,727
Total Expense	<u>\$ 1,029,517</u>	<u>\$ 87,637</u>	<u>\$ 81,563</u>	<u>\$ 1,198,717</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, 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	640,501	18,440	27,510	686,451
Occupancy	78,399	4,592	335	83,326
Depreciation	32,090	2,048	-	34,138
Professional fees	-	7,700	-	7,700
Contract services	9,740	11,100	-	20,840
Event expenses	-	-	18,134	18,134
Tech supplies & licenses	26,826	962	-	27,788
Equipment leases & repair	10,299	-	94	10,393
Childcare	1,614	-	-	1,614
Supplies	9,427	962	247	10,636
Educational materials	7,997	-	-	7,997
Telephone and internet	6,117	389	-	6,506
Travel and transportation	3,484	25	5	3,514
Dues and licenses	2,818	165	1,328	4,311
Insurance	3,206	2,098	-	5,304
Meals & events	995	2,092	240	3,327
Education/Training/Outreach	2,265	596	-	2,861
Student success	4,415	-	-	4,415
Bank service charges	175	33	2,426	2,634
Staff professional training	1,875	600	-	2,475
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**

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**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from grants, contributions, and contracts	\$ 977,488	\$ 961,762
Cash paid to employees and vendors	(1,025,883)	(913,466)
Interest and dividends received	785	788
Net cash provided (used) by operating activities	<u>(47,610)</u>	<u>49,084</u>
NET INCREASE (DECREASE) IN CASH	(47,610)	49,084
CASH AND CASH EQUIVALENTS, beginning of year	<u>263,913</u>	<u>214,829</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 216,303</u></u>	<u><u>\$ 263,913</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2019 and 2018

**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 an inclusive, equitable learning environment where adults can improve basic reading, writing, digital literacy, workplace skills, and English for Speakers of Other Languages (ESOL), as well as apply for citizenship. The Organization works with adults to help them achieve their goals with the assistance of community volunteers. Services are provided at no cost to students.

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 partner with adults working to gain skills and education to create new opportunities for themselves, their families, and the community. Literacy Source believes that all adults can learn and grow, and they value lifelong learning for all. They envision an inclusive and equitable society providing education and opportunities for all adults.

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 the following net asset classifications:

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and board of directors.
- *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. All of the Organization's net assets with donor restrictions are temporary in nature.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2019 and 2018

**Note 1. Organization and Significant Accounting Policies (continued)**

*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.

*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 donor 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 and leasehold improvements:* Equipment and leasehold improvements are 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:* Revenue from grants and contributions are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Revenues that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction is met in the reporting period in which the revenue is recognized. All other donor restricted revenues are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

*Contributed services:* Many Board members and community volunteers 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.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2019 and 2018

**Note 1. Organization and Significant Accounting Policies (continued)**

*Functional allocation of expenses:* The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

Individual expenses that solely relate to one program or supporting service are allocated in full to that category. Expenses that relate to multiple programs or supporting services are allocated as follows:

- *Payroll and related expenses* – allocated based on employee time and effort.
- *Occupancy and depreciation* – allocated based on an estimate of square foot usage of the facilities.
- *Equipment leases & repair and supplies* – allocated based on management's estimates of uses by each program or supporting service.

*Income Tax Status:* The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. 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 has determined there are no uncertain tax positions for the years ended June 30, 2019 or 2018, and the accompanying financial statements contain no interest or penalties with respect to federal income taxes. The Organization's federal income tax returns remain open for examination to the extent prescribed by the Internal Revenue Code.

*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, 2019 or 2018.

*New Accounting Pronouncement:* On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**LITERACY SOURCE, A COMMUNITY LEARNING CENTER**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**Note 2. Availability and Liquidity**

The following represents the Organization's liquidity and availability at June 30:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	\$ 216,303	\$ 263,913
Accounts receivable	177,288	136,267
Total financial assets	393,591	400,180
Less amounts not available to be used for general purposes within one year:		
Net assets with donor restrictions	20,191	20,273
Financial assets available to meet general expenditures over the next twelve months	\$ 373,400	\$ 379,907

The Organization's goal is generally to maintain financial assets to meet three to four months of operating expenses (approximately \$285,000 to \$380,000). Cash and cash equivalents are held in readily available checking and savings accounts.

**Note 3. Net Assets with Donor Restrictions**

Net assets with donor restrictions consist of the following program restrictions at June 30:

	2019	2018
Open Door Project	\$ 20,000	\$ 20,000
Student Success Fund	191	-
Childcare Supplies and Furnishings	-	273
	\$ 20,191	\$ 20,273

Net assets released from net assets with donor restrictions are as follows for the years ended June 30:

	2019	2018
Open Door Project	\$ 20,000	\$ -
Childcare Supplies and Furnishings	273	1,614
	\$ 20,273	\$ 1,614

# LITERACY SOURCE, A COMMUNITY LEARNING CENTER

## NOTES TO THE FINANCIAL STATEMENTS June 30, 2019 and 2018

### Note 4. 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, 2019 and 2018, respectively.

The Organization leases a copier under a five year operating lease beginning in June 2018. The lease requires monthly payments of \$750 plus sales tax and 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 and amortization of the copier lease incentive, relating to this lease and the previous copier lease was \$11,334 and \$10,299 for the years ended June 30, 2019 and 2018, respectively.

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

2020	\$ 86,709
2021	35,761
2022	9,909
2023	9,083
2024	-
	<u>\$ 141,462</u>

### Note 5. Economic Dependence

The Washington State Board of Community and Technical Colleges provided approximately 20% and 18% of the total support and revenue for the years ended June 30, 2019 and 2018, respectively.

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

### Note 6. 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 \$136,727 and \$84,361 in AmeriCorps services, VISTA services, and computer technical support for the years ended June 30, 2019 and 2018, respectively.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2019 and 2018

**Note 7. 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 \$10,441 and \$10,545 for the years ended June 30, 2019 and 2018, respectively.

**Note 8. Reclassifications**

Certain amounts from the June 30, 2018 financial statements were reclassified to conform to the current year presentation. These reclassifications have no impact on net income as previously stated.

**Note 9. Subsequent Events**

Literacy Source has evaluated subsequent events through the date these financial statements were available to be issued on January 30, 2020.