

LITERACY SOURCE,
A COMMUNITY LEARNING CENTER

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2022 and 2021

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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

11911 Northeast 1st Street, Suite 304, Bellevue, Washington 98005
(206) 628-4991 Fax (206) 682-3977

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Literacy Source, A Community Learning Center, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Literacy Source, A Community Learning Center as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Literacy Source, A Community Learning Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Literacy Source, A Community Learning Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that

includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Literacy Source, A Community Learning Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Literacy Source, A Community Learning Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Luby + Thomson

Luby and Thomson, PLLC
Certified Public Accountants
Bellevue, Washington
March 23, 2023

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

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

	2022	2021
WITHOUT DONOR RESTRICTIONS		
Revenue and support:		
Washington State Board for Community and Technical Colleges grants	\$ 192,916	\$ 237,463
Paycheck Protection Program loan forgiveness	-	156,500
Other government funding	443,235	356,983
Foundation grants	182,825	91,200
Contract revenue	24,563	15,578
Contributions	313,933	331,968
Interest income	264	331
In-kind donations	33,140	101,694
	1,190,876	1,291,717
Net assets released from restrictions	18,673	50,538
Total revenue and support without donor restrictions	1,209,549	1,342,255
Expenses:		
Program service	899,889	1,016,047
Management and general	154,160	147,841
Fundraising	106,634	78,978
	1,160,683	1,242,866
Increase (Decrease) in net assets without donor restrictions	48,866	99,389
WITH DONOR RESTRICTIONS		
Foundation grants	28,175	15,000
Contributions	6,344	3,724
Net assets released from restriction	(18,673)	(50,538)
	15,846	(31,814)
Increase (Decrease) in net assets with donor restrictions	15,846	(31,814)
INCREASE (DECREASE) IN NET ASSETS	64,712	67,575
NET ASSETS, beginning of year	543,057	475,482
NET ASSETS, end of year	\$ 607,769	\$ 543,057

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, 2022**

	Program Service	Management & General	Fundraising	Total
Salaries and wages	\$ 578,411	\$ 102,492	\$ 77,878	\$ 758,781
AmeriCorps	10,952	-	-	10,952
Payroll taxes and benefits	105,907	17,887	16,464	140,258
Total payroll & related expenses	<u>695,270</u>	<u>120,379</u>	<u>94,342</u>	<u>909,991</u>
Occupancy	86,443	6,111	446	93,000
Educational materials	26,292	-	-	26,292
Dues and licenses	16,738	4,720	1,064	22,522
Contract services	7,068	7,945	-	15,013
Tech supplies & licenses	11,048	99	-	11,147
Professional fees	-	9,590	-	9,590
Event expenses	-	-	6,740	6,740
Supplies	5,875	360	90	6,325
Insurance	3,214	2,525	-	5,739
Equipment leases & repair	4,980	559	56	5,595
Depreciation	4,481	358	340	5,179
Bank service charges	10	85	3,217	3,312
Telephone and internet	2,874	116	29	3,019
Staff professional training	2,814	-	-	2,814
Meals & events	1,385	898	119	2,402
Student success	1,122	-	-	1,122
Postage and delivery	882	-	191	1,073
Travel and transportation	293	-	-	293
In-kind services	29,100	415	-	29,515
Total Expenses	<u>\$ 899,889</u>	<u>\$ 154,160</u>	<u>\$ 106,634</u>	<u>\$ 1,160,683</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, 2021**

	Program Service	Management & General	Fundraising	Total
Salaries and wages	\$ 598,325	\$ 72,844	\$ 50,294	\$ 721,463
AmeriCorps	30,000	-	-	30,000
Payroll taxes and benefits	101,080	13,878	10,615	125,573
Total payroll & related expenses	<u>729,405</u>	<u>86,722</u>	<u>60,909</u>	<u>877,036</u>
Occupancy	75,616	10,396	758	86,770
Educational materials	32,713	-	-	32,713
Dues and licenses	1,379	3,678	1,539	6,596
Contract services	4,388	20,052	206	24,646
Tech supplies & licenses	15,982	666	-	16,648
Professional fees	14,000	17,055	2,800	33,855
Event expenses	-	-	5,933	5,933
Supplies	2,016	222	55	2,293
Insurance	3,566	2,268	-	5,834
Equipment leases & repair	8,827	893	89	9,809
Depreciation	23,014	2,148	1,736	26,898
Bank service charges	-	126	3,304	3,430
Telephone and internet	5,790	313	188	6,291
Staff professional training	1,332	623	395	2,350
Meals & events	1,378	366	-	1,744
Student success	1,417	-	-	1,417
Postage and delivery	1,543	62	196	1,801
Travel and transportation	171	-	50	221
Bad debt expense	-	-	725	725
Other	230	300	95	625
In-kind services	93,280	1,951	-	95,231
Total Expenses	<u><u>\$ 1,016,047</u></u>	<u><u>\$ 147,841</u></u>	<u><u>\$ 78,978</u></u>	<u><u>\$ 1,242,866</u></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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from grants, contributions, and contracts	\$ 1,080,964	\$ 1,151,895
Cash paid to employees and vendors	(1,126,283)	(1,133,451)
Interest and dividends received	264	331
Net cash provided (used) by operating activities	<u>(45,055)</u>	<u>18,775</u>
NET INCREASE (DECREASE) IN CASH	(45,055)	18,775
CASH AND CASH EQUIVALENTS, beginning of year	<u>439,988</u>	<u>421,213</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 394,933</u></u>	<u><u>\$ 439,988</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Non-cash financing activities:		
Paycheck Protection Program loan forgiveness	\$ -	\$ 156,500

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022 and 2021

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, 2022 and 2021

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.

Revenue recognition: The Organization receives revenue from government funding, contributions, foundation grants, and contract revenue. Revenue from these sources is recognized as follows:

- *Government funding* – Revenue from government sources consist primarily of cost reimbursement grants. These grants are recognized as revenue in the period the Organization earns the funds by incurring costs in compliance with the agreement. Payment is received after the funds have been earned. The beginning and ending receivables associated with government funding were \$82,345 and \$164,312, respectively, for the year ended June 30, 2022, and \$157,855 and \$82,345, respectively, for the year ended June 30, 2021.

The Organization's billings under the cost reimbursement grants are subject to audit and retroactive adjustments made by the funding agencies. No adjustments were made for the years ended June 30, 2022 or 2021.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 1. Organization and Significant Accounting Policies (continued)

- *Contributions and foundation grants* – Contributions and foundation grants consist primarily of unconditional promises to give. Unconditional promises to give are recognized as revenue in the period the promise is made. Conditional promises to give are not recognized as support until the conditions are substantially met.

Revenues from contributions and grants 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.

- *Contract revenue* – Contract revenue consists of exchange transactions with employers and unions to provide on-site or virtual classes for employees. Revenue from exchange transactions is recognized in the period the service for the exchanged benefit is performed. If payment is received in advance of services being performed, deferred revenue is recorded. There was no deferred revenue at the beginning or end of the years ended June 30, 2022 or 2021. The beginning and ending receivables associated with contract revenue were \$0 and \$12,500, respectively, for the year ended June 30, 2022 and \$1,800 and \$0, respectively, for the year ended June 30, 2021.

In-kind contributions: Contributions of donated goods and services are recorded as revenue at the estimated fair value at the date of donation. Donated services are recognized as revenue and corresponding expense when (a) the services received create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

The Organization received in-kind donations of \$29,515 and \$95,231 in AmeriCorps services, VISTA services, and computer technical support for the years ended June 30, 2022 and 2021, respectively. During the year ended June 30, 2021 the Organization received one month of free office rent from the landlord, valued at the monthly base rent specified in the lease, which was \$6,463.

During the year ended June 30, 2022 the Organization received donated software licenses valued using the price the Organization would pay if purchasing an equivalent product, which was \$3,625. Donated goods are not monetized and are used as they are received. The corresponding expense is recorded in program services in the statement of functional expenses.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 1. Organization and Significant Accounting Policies (continued)

Members of the board of directors and volunteers make significant contributions of time to the Organization's programs 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 (U.S. GAAP) and, accordingly, is not reflected in the accompanying financial statements.

Adopted accounting pronouncement: In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively to annual reporting periods beginning after June 15, 2021. As such, the Organization adopted the standard during the year ended June 30, 2022. The standard did not have a material impact on the financial statements. The Organization has updated disclosures as necessary.

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, 2022 or 2021, 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.

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.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 2. Availability and Liquidity

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

Financial assets at year end:	2022	2021
Cash and cash equivalents	\$ 394,933	\$ 439,988
Accounts receivable	210,872	99,845
Total financial assets	605,805	539,833
Less amounts not available to be used for general purposes within one year:		
Board designated net assets	12,918	-
Net assets with donor restrictions, excluding time restrictions	9,470	3,724
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 583,417</u>	<u>\$ 536,109</u>

The Organization's goal is generally to maintain financial assets to meet three to four months of operating expenses (approximately \$340,000 to \$460,000). Cash and cash equivalents are held in readily available checking and savings accounts.

The COVID-19 Pandemic has impacted the Organization's ability to provide in person classes and host fundraising events. It is possible this matter may negatively impact its operating results in the future. The extent of the financial impact and duration cannot be reasonably estimated at this time.

The Organization believes that revenue from signed grant contracts and financial assets on hand will allow the Organization to continue to operate through one year from the date the financial statements were available to be issued.

Note 3. Board Designated Net Assets

Board designated net assets total \$12,918 at June 30, 2022 and are designated for Diversity, Equity, and Inclusion work.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 4. Net Assets with Donor Restrictions

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

	2022	2021
Program restrictions		
Drivers Education Class	\$ 6,244	\$ -
Student Technology	3,175	-
Student Success Fund	51	621
Staff Technology	-	3,103
Time restrictions	25,100	15,000
	\$ 34,570	\$ 18,724

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

	2022	2021
Program restrictions		
Staff Technology	\$ 3,103	\$ -
Student Success Fund	570	538
Adult Education	-	30,000
Digital Equity	-	10,000
Time restrictions	15,000	10,000
	\$ 18,673	\$ 50,538

Note 5. Operating Leases

The Organization leases space in Lake City for offices and classrooms. The rental lease was 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 was amortized over the life of the lease. In July 2020 the Organization signed a renewal of this lease. The renewal extended the lease term through October 31, 2025. The renewal also allows the landlord to terminate the lease early for the purpose of redeveloping the property. If the landlord exercises the right to terminate the lease, the Organization will receive a pro-rated termination fee calculated from the initial cost of tenant improvements. A provision was added to allow the Organization to terminate the lease for any reason with twelve months advance written notice. The landlord donated one month of free rent to the Organization during the year ended June 30, 2021. The donated rent is included in in-kind donation revenue on the statement of financial position and occupancy expense on the statement of functional expenses. Rent expense under this lease was \$81,400 and \$75,676 for the years ended June 30, 2022 and 2021, respectively.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 5. Operating Leases (continued)

The Organization leases a copier under a five year operating lease beginning in October 2021. The lease requires monthly payments of \$610 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 \$5,595 and \$9,810 for the years ended June 30, 2022 and 2021, respectively.

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

2023	\$ 91,907
2024	94,427
2025	97,019
2026	38,003
2027	2,015
	<u>\$ 323,371</u>

Note 6. Economic Dependence

The Washington State Board of Community and Technical Colleges provided approximately 16% and 18% of total support and revenue for the years ended June 30, 2022 and 2021, respectively.

An additional government source provided approximately 21% and 14% of total support and revenue for the years ended June 30, 2022 and 2021, respectively.

Paycheck Protection Program loan forgiveness provided 12% of total support and revenue for the year ended June 30, 2021.

At June 30, 2022, 56% of accounts receivable was due from two sources.

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 \$14,599 and \$9,897 for the years ended June 30, 2022 and 2021, respectively.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022 and 2021

Note 8. Paycheck Protection Program Loan

On May 4, 2020, the Organization received loan proceeds in the amount of \$156,500 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight or twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the selected period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for ten months following the end of the covered period. The Organization used the proceeds for purposes consistent with the PPP. In June 2021, the Organization was notified that the Small Business Administration approved full forgiveness of the PPP loan, at which time the Organization recognized the forgiven amount as revenue.

Note 9. Subsequent Events

Literacy Source has evaluated subsequent events through the date these financial statements were available to be issued on March 23, 2023.