LITERACY CONNECTS

Reviewed Financial Statements

For the year ended June 30, 2019

LITERACY CONNECTS

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LUDWIG KLEWER & RUDNER PLLC

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of
Literacy Connects

We have reviewed the accompanying financial statements of Literacy Connects (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Ludwig Klewer + Rudner PLLC

December 3, 2019

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STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

Current assets:	
Cash	$ 743,995
Accounts receivable	3,740
Grants receivable	113,212
Prepaid expenses	12,968
Other current assets	4,035
Total current assets	877,950
Property and equipment, net	1,709,021
Beneficial interest in funds held by others	80,317
Total assets	$ 2,667,288

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	$ 5,668
Accrued payroll and related expenses	104,220
Note payable, current portion	4,784
Total current liabilities	114,672
Note payable, non-current portion	390,791
Total liabilities	505,463
Net assets:	
Without donor restrictions:	
Undesignated	203,321
Expended for property and equipment	1,313,446
Designated by the board for endowment	10,680
Total net assets without donor restrictions	1,527,447
With donor restrictions:	
Purpose restrictions	450,326
Perpetual in nature	192,508
Underwater endowments	(8,456)
Total net asset with donor restrictions	634,378
Total net assets	2,161,825
Total liabilities and net assets	$ 2,667,288

See independent accountant's review report and
notes to financial statements

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STATEMENT OF ACTIVITIES
For the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	$ 788,052	$ 352,000	$ 1,140,052
Grants	536,734	171,400	708,134
In-kind contributions	326,694	-	326,694
Government contracts	315,774	-	315,774
Special events	116,009	-	116,009
Program service fees	88,304	-	88,304
Investment income	7,543	-	7,543
Change in value of beneficial interest in funds held by others	(846)	2,842	1,996
Net assets released from restrictions:			
Purpose restrictions satisfied by expenditures	867,074	(867,074)	-
Total revenues and support	3,045,338	(340,832)	2,704,506
Expenses:			
Program services	1,657,751	-	1,657,751
Fundraising	338,819	-	338,819
Management and general	111,598	-	111,598
Total expenses	2,108,168	-	2,108,168
Change in net assets	937,170	(340,832)	596,338
Net assets, beginning of year	590,277	975,210	1,565,487
Net assets, end of year	$ 1,527,447	$ 634,378	$ 2,161,825

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STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2019

	Program Services	Fund-Raising	General and Administrative	Total
Salaries	$ 797,752	230,779	64,847	$ 1,093,378
Payroll taxes	70,586	19,586	5,626	95,798
Employee benefits	87,533	14,031	4,091	105,655
Total employee expenses	955,871	264,396	74,564	1,294,831
Training and tutors	283,012	10,943	15,471	309,426
Office supplies	60,384	7,104	3,552	71,040
Professional educators and consultants	58,297	6,856	3,434	68,587
Professional services	47,600	5,515	1,391	54,506
Equipment rental and maintenance	37,639	4,428	2,214	44,281
Communications	30,014	3,531	1,766	35,311
Depreciation	27,520	3,238	1,619	32,377
Conferences and meetings	27,465	3,231	1,616	32,312
Interest expense	24,616	2,896	1,448	28,960
Library purchases	28,455	-	-	28,455
Insurance	17,080	2,009	1,005	20,094
Occupancy	16,556	1,948	974	19,478
Direct donor benefit costs	-	17,638	-	17,638
Printing and publications	14,827	1,744	872	17,443
Public relations	10,930	1,286	643	12,859
Dues and subscriptions	8,042	946	473	9,461
Miscellaneous	6,278	738	369	7,385
Postage	3,165	372	187	3,724
Total functional expenses	$ 1,657,751	$ 338,819	$ 111,598	$ 2,108,168

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STATEMENT OF CASH FLOWS
For the year ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	$ 596,338
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	32,377
Change in value of beneficial interest in funds held by others	(1,996)
Contributions restricted for capital purposes	(200,000)
Changes in operating assets and liabilities:	
Accounts receivable	16,084
Grants receivable	(113,212)
Prepaid expenses	(5,111)
Other current assets	(4,035)
Accounts payable and accrued expenses	(10,546)
Accrued payroll and related expenses	20,963
Total adjustments	(265,476)
Net cash provided by operating activities	330,862
Cash flows from investing activities:	
Purchases of property and equipment	(644,978)
Purchase of beneficial interest in funds held by others	(15,585)
Net cash used in investing activities	(660,563)
Cash flows from financing activities:	
Repayments on note payable	(4,462)
Contributions restricted for capital purposes	200,000
Net cash provided by financing activities	195,538
Change in cash	(134,163)
Cash, beginning of year	878,158
Cash, end of year	$ 743,995
Supplemental schedule of cash flow information:	
Cash paid during the year for taxes	$ -
Cash paid during the year for interest	$ 28,960

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1. Organization

Literacy Connects (the Organization) is a Tucson nonprofit corporation that offers literacy and arts programs for children and adults. Formed in July 2011 by the merger of five longstanding organizations, the Organization has nearly 100 years of experience providing quality literacy programming in Pima County and Southern Arizona. It is one of the largest nonprofit literacy providers in Arizona, and its primary funding comes from private grants and donations.

The Organization addresses Tucson's high levels of poverty at its roots – by providing innovative, student-centered programming designated to cultivate independent, lifelong learners.

The Organization offers these programs:

- Reach Out and Read Southern Arizona prepares children from birth through age five to succeed in school by partnering with doctors to prescribe books and encourage families to read together.
- Reading Seed recruits and trains volunteer reading coaches to work one-on-one with students in kindergarten through fifth grade who are reading below grade level. It distributes free books to children to encourage independent reading.
- Stories that Soar! helps young writers experience the power of literacy and creative expression as their original stories soar to life through professional theatre productions, visual arts, handcrafted books and an arts integration K-12 curriculum.
- Adult Basic Literacy recruits, trains and supports volunteers to tutor adult students who need to improve their reading, writing, and math skills to enter job-training programs, gain their high school equivalency, get better jobs or enroll in higher education.
- English Language Acquisition for Adults recruits, trains, and supports volunteers to provide free classes for immigrants and refugees who want to speak, write and read in English so they can fully participate in – and contribute to – our community.
- The Literacy Connects Infusion Project is an elementary school level group of supplemental programs that move students toward grade-level reading mastery, comprehensive intervention strategies/whole school improvement that increase overall literacy achievement by third grade, book distribution programs that increase students' access to print materials, encourage students' reading outside of the classroom, an develop students' life-long love of reading.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The financial statements are prepared on the accrual basis of accounting. Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions – net assets available for use in general operations and not subject to donor (or grantor) restrictions. Net assets without donor restrictions at June 30, 2019 include $10,680 designated by the board of directors as an endowment.
- Net assets with donor restrictions – net assets subject to donor (or grantor) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

2. Summary of Significant Accounting Policies, Continued

Financial Statement Presentation, continued

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as net assets without donor restrictions.

Use of Estimates

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

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural classification. Certain other expenses are allocated among program services and supporting services benefited. These allocated expenses include salary and related expenses, training and tutors, professional services, supplies, equipment rental, communications, conferences and meetings, which are allocated on the basis of estimates of time and effort. Other expenses, including depreciation, occupancy and other operating expenses are allocated on a square footage basis.

Cash

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. There are no cash equivalents at June 30, 2019. The Federal Deposit Insurance Corporation (FDIC) insures interest-bearing cash accounts at banks up to $250,000 per owner per institution. The National Credit Union Administration (NCUA) protects accounts at federally insured credit unions up to $250,000 per owner per institution. Investments held by other institutions are not insured. At June 30, 2019, the Organization had cash and investments in the amount of $355,683 at various banks and institutions in excess of FDIC and NCUA limitations. It is the opinion of management that the solvency of the referenced financial institutions is not of concern at this time.

Accounts and Grants Receivable

Accounts receivable is comprised primarily of amounts owed to the Organization for contracted services. Grants receivable is comprised of amounts awarded to the Organization but not yet received. There are no accounts receivable balances at June 30, 2019 that are 90 days or more past due. The grants receivable balance is current as of June 30, 2019. Management believes all accounts and grants receivable are collectible and that no reserve is necessary at June 30, 2019.

2. Summary of Significant Accounting Policies, Continued

Beneficial Interest in Funds Held by Others

FASB ASC 958-605-50-6 *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* dictates that a transfer of assets to a recipient organization is an equity transaction if all of the following conditions are present:

- The resource provider specifies itself or its affiliate as the beneficiary.
- The resource provider and the recipient organization are financially interrelated organizations.
- Neither the resource provider nor its affiliate expects payment of the transferred assets, although payment of investment return on the transferred assets may be expected.

The Organization funds held at Jewish Community Foundation (JCF) and the Community Foundation for Southern Arizona (CFSA) for which these criteria have been met. The balance at June 30, 2019 is $80,317.

Property and Equipment

Purchased property and equipment is carried at cost. Donated property and equipment is recorded at estimated fair value on the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The Organization capitalizes all expenditures for property and equipment in excess of $1,000 with a useful life of more than one year.

The cost of repairs and maintenance is charged to expense in the year incurred. Expenditures that increase the useful lives of the assets are capitalized. Upon the sale or retirement of depreciable assets, the related cost and accumulated depreciation are removed from the accounts. All gains or losses are reflected in revenue in the year of disposition. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings and leasehold improvements	7-40 years
Computer equipment	3-5 years
Furniture and fixtures	5-7 years
Library books	5 years

Advertising

The Organization expenses all advertising costs as incurred. Advertising expense was $12,859 for the year ended June 30, 2019. These costs are included in public relations in the accompanying statement of functional expenses.

Donated Services, Materials, and Facilities

Donated services, materials, and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and are provided by individuals possessing those skills;
- The services would typically need to be purchased if not donated.

The Organization has recorded the value of professional educators and consultants totaling $299,394 for the year ended June 30, 2019. Although the Organization also utilizes the services of many other volunteers, the fair value of these other services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies, Continued

Income Taxes

The Organization is a nonprofit organization exempt from federal income tax under Internal Revenue Code (IRC) Section 501(c)(3) and from Arizona income tax under Arizona Revised Statute section 43-1201(4). In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a)(vi) and has been classified as other than a private foundation under Section 509(a)(1) of the IRC.

The Organization's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of June 30, 2019, management is not aware of any uncertain tax positions that are potentially material. In addition, management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

Reclassifications

Net assets as of June 30, 2018 have been reclassified to conform the 2019 financial statement presentation.

3. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of:

Cash	$ 743,995
Accounts receivable	3,740
Grants receivable	113,212
Total financial assets available within one year	860,947
Less:	
Amounts unavailable for general expenditures within one year due to:	
Perpetual in nature not on deposit at JCF or CFSA	(112,191)
Purpose restrictions	(450,326)
Total amounts unavailable for general expenditures within one year	(562,517)
Total financial assets available to management for general expenditure within one year	$ 298,430

The Organization has a policy to structure is financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in interest-bearing cash accounts.

4. Property and Equipment

Property and equipment consists of the following at June 30, 2019

Buildings and improvements	$ 1,611,543
Land	91,690
Computer equipment	104,684
Furniture and fixtures	132,638
Library books	30,804
Construction in progress	12,212
Total property and equipment	1,983,571
Less accumulated depreciation	(274,550)
Property and equipment, net	$ 1,709,021

Construction in progress at June 30, 2019 includes costs incurred in connection with the Youth Center exterior and parking lot improvements. The estimated total cost of the project is approximately $250,000, and the project is expected to be completed by November 30, 2019.

5. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

5. Fair Value Measurements, Continued

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2019.

- *Beneficial interest in funds held by others:* Valued at the fair value of the underlying equity and fixed income funds as reported by the foundation holding the funds.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair values of assets measured on a recurring basis are:

	Assets at fair value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Beneficial interest in funds held by others	$ -	$ -	$ 80,317	$ 80,317
Total assets	$ -	$ -	$ 80,317	$ 80,317

The table below sets forth a summary of changes in the fair value of the Organization's level 3 assets for the year ended June 30, 2019:

Beneficial Interest In Funds Held By Others	
Balance, beginning of year	$ 62,736
Purchases and reinvested interest	15,585
Change in value	3,973
Fees	(1,100)
Distributions	(877)
Balance, end of year	$ 80,317

6. Note Payable

The note payable consists of the following at June 30, 2019:

Note payable to a non-profit corporation, requiring monthly installments of $2,694 including annual interest at 7% through April 2027.	$ 395,575
Less current portion	(4,784)
Note payable, non-current portion	$ 390,791

6. Note Payable, Continued

Scheduled future maturities of the note payable are:

For the year ended June 30,		
2020	$	4,784
2021		5,130
2022		5,501
2023		5,898
2024		6,325
Thereafter		367,937
	$	395,575

7. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2019:

Subject to expenditure for specified purpose:		
Youth Center Campaign	$	278,926
Reading Seed		54,400
Infusion Project		50,000
Stories That Soar!		10,000
Other purposes		57,000
		450,326
Endowments:		
Subject to appropriation and expenditure:		
Underwater endowments		(8,456)
Not subject to spending policy or appropriation, beneficial interest in funds held, original perpetual gifts		192,508
Net assets with donor restrictions	$	634,378

7. Net Assets With Donor Restrictions, Continued

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2019:

	Contributions	Change in Value of Beneficial Interest in Funds Held	Releases
Subject to expenditure for specified purpose:			
Youth Center Campaign	$ 222,000	$ -	$ (787,074)
Reading Seed	54,400	-	(20,000)
Infusion Project	50,000	-	(50,000)
Stories That Soar!	10,000	-	-
Other purposes	57,000	-	(10,000)
	393,400	$ -	$ (867,074)
Endowments:			
Subject to appropriation and expenditure:			
Accumulated endowment earnings	-	2,842	-
Not subject to spending policy or appropriation, beneficial interest in funds held, original perpetual gifts	130,000	-	-
Net assets with donor restrictions	$ 523,400	$ 2,842	$ (867,074)

8. Endowments

The Organization's endowment consists of a fund designated by the Board of Directors to function as an endowment to support general operations and a permanently restricted, donor-designated endowment fund. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the state of Arizona as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion, if any, of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization and (7) the Organization's investment policies.

8. Endowments, Continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, accumulated deficiencies of this nature that are reported in net assets with donor restrictions were $8,456 as of June 30, 2019, and the related original corpus was $192,508.

Return Objectives and Risk Parameters

The Organization has no formally adopted investment policies for the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds.

Investment Strategies

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Organization's endowment funds are held at two separate community foundations, and the Organization has adopted the spending policy of each foundation for these funds. Accordingly, accumulated earnings on both the board designated and donor-designated endowment funds are released as appropriations to unrestricted net assets when distributed by the foundations.

Endowment Fund Net Assets

Endowment fund net asset activity consists of the following for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2018	$ 11,526	$ 51,210	$ 62,736
Contributions	-	130,000	130,000
Change in value of beneficial interests in funds held at JCF and CFSA	(846)	2,842	1,996
Balance, June 30, 2019	$ 10,680	$ 184,052	$ 194,732

9. In-Kind Contributions

In-kind contributions consist of the following for the year ended June 30, 2019:

Professional tutors	$ 299,394
Professional services	27,300
Total in-kind contributions	$ 326,694

10. Commitments

The Organization leases office equipment under operating leases with various expirations through December 2024. Total rent expense for the year ended June 30, 2019 was $21,844.

Scheduled future minimum lease payments due under the leases are:

For the year ended June 30,	
2020	$ 14,206
2021	8,596
2022	8,596
2023	8,596
2024	8,596
Total future minimum lease payments	$ 48,590

11. Pension Plan

The Organization maintains a SIMPLE IRA plan covering all employees who are eligible to participate. Eligible employees may make contributions to the plan through payroll deductions, and the Organization is required to match the employee's salary reduction contributions up to 3% of their compensation for the year. Total contributions to the plan were $20,509 for the year ended June 30, 2019.

12. Subsequent Events

The Organization was unaware of any subsequent events as of December 3, 2019, the date the financial statements were available to be issued.