

LITERACY CONNECTS

Reviewed Financial Statements

For the years ended June 30, 2023 and 2022

LITERACY CONNECTS

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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 statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years 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.

We are required to be independent of Literacy Connects and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

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

April 26, 2024



LITERACY CONNECTS
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Current assets:		
Cash	\$ 1,087,638	\$ 1,134,965
Accounts receivable	23,302	31,686
Grants receivable	30,587	-
Unconditional promises to give, current portion	250,000	-
Investments - other	39,752	-
Prepaid expenses	35,952	25,979
Total current assets	1,467,231	1,192,630
Unconditional promises to give, non-current portion, net	625,195	-
Property and equipment, net	1,740,817	1,742,339
Investments	127,662	77,394
Beneficial interest in funds held by others	323,853	308,204
Other assets	3,224	3,224
Total assets	<u>\$ 4,287,982</u>	<u>\$ 3,323,791</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 13,587	\$ 19,530
Accrued payroll and related expenses	73,052	76,501
Notes payable, current portion	7,045	6,570
Total current liabilities	93,684	102,601
Notes payable, non-current portion	357,254	364,299
Total liabilities	450,938	466,900
Net assets:		
Without donor restrictions:		
Undesignated	697,312	1,042,584
Expended for property and equipment	1,376,518	1,371,470
Designated by the board for endowment	11,077	10,355
Total net assets without donor restrictions	2,084,907	2,424,409
With donor restrictions:		
Purpose restrictions	1,439,361	134,633
Perpetual in nature	274,914	273,914
Subject to appropriation and expenditure	37,862	23,935
Total net asset with donor restrictions	1,752,137	432,482
Total net assets	3,837,044	2,856,891
Total liabilities and net assets	<u>\$ 4,287,982</u>	<u>\$ 3,323,791</u>

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

LITERACY CONNECTS
STATEMENT OF ACTIVITIES
For the year ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 467,319	\$ 651,517	\$ 1,118,836
Grants	658,724	1,259,950	1,918,674
Government contracts	317,830	-	317,830
In-kind contributions	280,473	-	280,473
Special events	158,223	-	158,223
Program service fees	20,869	-	20,869
Change in value of beneficial interest in funds held by others	722	13,927	14,649
Investment gain	5,987	-	5,987
Interest and dividends	10,032	-	10,032
Net assets released from restrictions:			
Purpose restrictions satisfied by expenditures	605,739	(605,739)	-
Total revenues and support	2,525,918	1,319,655	3,845,573
Expenses:			
Program services	2,424,072	-	2,424,072
Fundraising	329,150	-	329,150
Management and general	112,198	-	112,198
Total expenses	2,865,420	-	2,865,420
Change in net assets	(339,502)	1,319,655	980,153
Net assets, beginning of year, restated	2,424,409	432,482	2,856,891
Net assets, end of year	\$ 2,084,907	\$ 1,752,137	\$ 3,837,044

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LITERACY CONNECTS
STATEMENT OF ACTIVITIES
For the year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 900,434	\$ 51,000	\$ 951,434
Grants	354,482	389,300	743,782
Debt extinguishment - Paycheck Protection Loan	280,740	-	280,740
Government contracts	269,286	-	269,286
In-kind contributions	172,983	-	172,983
Special events	137,246	-	137,246
Program service fees	7,630	-	7,630
Change in value of beneficial interest in funds held by others	(1,986)	(16,371)	(18,357)
Investment loss	(6,078)	-	(6,078)
Net assets released from restrictions:			
Purpose restrictions satisfied by expenditures	404,667	(404,667)	-
Total revenues and support	2,519,404	19,262	2,538,666
Expenses:			
Program services	2,071,997	-	2,071,997
Fundraising	248,672	-	248,672
Management and general	129,391	-	129,391
Total expenses	2,450,060	-	2,450,060
Change in net assets	69,344	19,262	88,606
Net assets, beginning of year	2,355,065	413,220	2,768,285
Net assets, end of year, restated	\$ 2,424,409	\$ 432,482	\$ 2,856,891

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STATEMENT OF FUNCTIONAL EXPENSES For the year ended June 30, 2023

	Program Services	Fund- Raising	General and Administrative	Total
Salaries	\$ 1,221,459	\$ 143,701	\$ 71,849	\$ 1,437,009
Payroll taxes	106,545	12,535	6,267	125,347
Employee benefits	122,702	14,436	7,218	144,356
Total employee expenses	1,450,706	170,672	85,334	1,706,712
Training and tutors	282,558	-	314	282,872
Professional educators and consultants	144,947	9,782	6,217	160,946
Professional services	80,798	15,112	3,675	99,585
Direct donor benefit costs	-	96,034	-	96,034
Depreciation	72,585	8,539	4,270	85,394
Program supplies	74,168	244	102	74,514
Equipment rental and maintenance	53,188	3,474	2,225	58,887
Office supplies	50,933	3,913	2,307	57,153
Library purchases	41,122	-	-	41,122
Occupancy	31,717	2,628	1,555	35,900
Communications	31,881	2,114	1,409	35,404
Miscellaneous	26,407	2,048	1,025	29,480
Insurance	25,419	1,695	1,130	28,244
Interest expense	21,890	2,575	1,288	25,753
Conferences and meetings	20,923	2,524	548	23,995
Dues and subscriptions	4,089	6,533	167	10,789
Printing and publications	7,407	871	436	8,714
Postage	3,139	369	185	3,693
Public relations	195	23	11	229
Total functional expenses	\$ 2,424,072	\$ 329,150	\$ 112,198	\$ 2,865,420

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LITERACY CONNECTS

STATEMENT OF FUNCTIONAL EXPENSES For the year ended June 30, 2022

	Program Services	Fund- Raising	General and Administrative	Total
Salaries	\$ 1,174,586	\$ 80,085	\$ 80,085	\$ 1,334,756
Payroll taxes	113,782	7,758	7,758	129,298
Employee benefits	101,277	6,905	6,905	115,087
Total employee expenses	1,389,645	94,748	94,748	1,579,141
Training and tutors	172,830	-	312	173,142
Professional educators and consultants	91,609	8,880	8,425	108,914
Depreciation	90,771	6,189	6,189	103,149
Professional services	32,843	56,793	2,043	91,679
Direct donor benefit costs	-	61,788	-	61,788
Equipment rental and maintenance	55,196	3,314	3,020	61,530
Communications	34,646	2,270	2,270	39,186
Office supplies	28,550	1,947	1,947	32,444
Program supplies	26,400	1,800	1,800	30,000
Interest expense	23,052	1,572	1,572	26,196
Insurance	22,482	1,487	1,487	25,456
Occupancy	21,587	1,423	1,423	24,433
Library purchases	19,738	-	-	19,738
Conferences and meetings	17,472	1,072	476	19,020
Miscellaneous	16,153	1,101	1,101	18,355
Printing and publications	12,050	822	822	13,694
Dues and subscriptions	10,693	1,591	378	12,662
Public relations	2,781	1,636	1,139	5,556
Postage	3,499	239	239	3,977
Total functional expenses	\$ 2,071,997	\$ 248,672	\$ 129,391	\$ 2,450,060

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STATEMENTS OF CASH FLOWS For the years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 980,153	\$ 88,606
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	85,394	103,149
Change in value of beneficial interest in funds held by others	(14,649)	18,357
Debt extinguishment - Paycheck Protection Program	-	(280,740)
Realized and unrealized (gain) loss on investments	(1,602)	11,057
Changes in operating assets and liabilities:		
Accounts receivable	8,384	(16,522)
Grants receivable	(30,587)	27,500
Unconditional promises to give	(875,195)	-
Prepaid expenses	(9,973)	(13,024)
Accounts payable and accrued expenses	(5,942)	2,458
Accrued payroll and related expenses	(3,449)	(33,611)
Total adjustments	(847,619)	(181,376)
Net cash provided by (used in) operating activities	132,534	(92,770)
Cash flows from investing activities:		
Purchases of property and equipment	(83,872)	(29,990)
Proceeds from sale of investments	245,954	36,054
Purchases of investments	(294,373)	(124,505)
Purchases of investments - other	(40,000)	-
Purchase of beneficial interest in funds held by others	(1,000)	(51,432)
Net cash used in investing activities	(173,291)	(169,873)
Cash flows from financing activities:		
Repayments on notes payable	(6,570)	(6,127)
Net cash used in financing activities	(6,570)	(6,127)
Change in cash	(47,327)	(268,770)
Cash, beginning of year	1,134,965	1,403,735
Cash, end of year	\$ 1,087,638	\$ 1,134,965
Supplemental schedule of cash flow information:		
Cash paid during the year for taxes	\$ -	\$ -
Cash paid during the year for interest	\$ 25,753	\$ 26,196
Debt extinguishment - Paycheck Protection Program	\$ -	\$ 280,740

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NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

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 Youth Center at Literacy Connects is a space where middle school student can discover their assets, creatively express themselves and engage in Social Emotional Learning.

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, 2023 and 2022 include \$11,077 and \$10,355, respectively, 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.

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NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

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, 2023 and 2022. 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, 2023 and 2022, the Organization had cash and investments in the amounts of \$736,058 and \$812,501, respectively, 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, 2023 and 2022 that are 90 days or more past due. The grants receivable balance is current as of June 30, 2023 and 2022. Management believes all accounts and grants receivable are collectible and that no reserve is necessary at June 30, 2023 and 2022.

See independent accountant's review report.

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NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

2. Summary of Significant Accounting Policies, Continued

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. As of June 30, 2023, the discount on these amounts is computed using an interest rate of 7%. Amortization of the discount is included in contribution revenue. Management believes all unconditional promises to give are collectible and that no allowance for uncollectible unconditional promises to give is necessary at June 30, 2023.

Revenue

Revenue is recognized when earned. Program services fees and government contracts under cost-reimbursable contracts payments received in advance are deferred to the applicable period in which the related services are performed.

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 combined balances at June 30, 2023 and 2022 are \$323,854 and \$308,204, respectively.

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

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NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

2. Summary of Significant Accounting Policies, Continued

Advertising

The Organization expenses all advertising costs as incurred. Advertising expense was \$229 and \$5,556 for the years ended June 30, 2023 and 2022, respectively. 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 \$273,123 and \$163,327, respectively, for the years ended June 30, 2023 and 2022. 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.

Investments

Investments in marketable securities with readily available fair values are stated at their fair values in the statements of financial position. Unrealized gains and losses are included the change in net assets in the accompanying statements of activities.

The Securities Investor Protection Corporation (SIPC) protects investments up to \$500,000 per institution. However, the SIPC does not protect against losses in market value. At June 30, 2023 and 2022, the Organization had no deposits in excess of SIPC limitations. It is the opinion of management that the solvency of the referenced brokerage institutions is not of concern at this time.

Investments - Other

Investments - other is comprised of a certificate of deposit held for investment that is not a debt security. The certificate of deposit matures during December 2023 and has an annual fixed interest rate of 3.9%. The certificate of deposit is recorded at cost which approximates fair market value.

Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as current, and certificates of deposit with remaining maturities greater than one year are classified as non-current.

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, 2023, 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.

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NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

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 the following for the years ended June 30,:

	2023	2022
Cash	\$ 1,087,638	\$ 1,134,965
Accounts receivable	23,302	31,686
Grants receivable	30,587	-
Unconditional promises to give, current portion	250,000	-
Total financial assets available within one year	1,391,527	1,166,651
Less:		
Amounts unavailable for general expenditures within one year due to:		
Purpose restrictions	(814,166)	(134,633)
Total financial assets available to management for general expenditure within one year	\$ 577,361	\$ 1,032,018

The Organization has a policy to structure its 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 short-term investment accounts.

4. Unconditional Promises to Give

During the year ended June 30, 2023, the Organization received an unconditional promise to give to be used toward the Stories That Soar! program. The balance due relating to this unconditional promise to give is scheduled to be paid in future years as follows at June 30, 2023:

For the year ended June 30,

2024	\$ 250,000
2025	250,000
2026	250,000
2027	250,000
Total unconditional promises to give	1,000,000
Less discount to present value at 7%	(124,805)
Unconditional promises to give, net	875,195
Less current portion	250,000
Non-current portion	\$ 625,195

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NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

5. Investments

Investments are stated at fair value and consist of the following at June 30,:

	2023	2022
U.S. Treasury securities	\$ 97,662	\$ -
Fixed income securities	-	57,394
U.S. Treasury bonds	30,000	20,000
Total investments	<u>\$ 127,662</u>	<u>\$ 77,394</u>

Investment income (loss) consists of the following for the year ended June 30,:

	2023	2022
Interest and dividends	\$ 4,385	\$ 4,979
Unrealized and realized gain (loss)	1,602	(11,057)
Investment income (loss)	<u>\$ 5,987</u>	<u>\$ (6,078)</u>

6. Property and Equipment

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

	2023	2022
Buildings and improvements	\$ 1,821,246	\$ 1,761,266
Land and improvements	213,847	189,954
Computer equipment	69,246	69,246
Furniture and fixtures	73,612	73,612
Library books	30,804	30,804
Vehicle	4,500	4,500
Total property and equipment	2,213,255	2,129,382
Less accumulated depreciation	(472,438)	(387,043)
Property and equipment, net	<u>\$ 1,740,817</u>	<u>\$ 1,742,339</u>

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NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

7. 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.

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, 2023 and 2022.

- *Fixed income securities*: valued at the closing price reported on the active market on which they are traded.
- *U.S. Treasury securities*: valued at fair value based on national trade listing.
- *U.S. Treasury bonds*: valued at face value.
- *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.

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NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

7. Fair Value Measurements, Continued

Fair values of assets measured on a recurring basis are:

Assets at fair value as of June 30, 2023				
	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	\$ 97,662	\$ -	\$ -	\$ 97,662
U.S. Treasury bonds	30,000	-	-	30,000
Beneficial interest in funds held by others	-	-	323,853	323,853
Total assets	<u>\$ 127,662</u>	<u>\$ -</u>	<u>\$ 323,853</u>	<u>\$ 451,515</u>

Assets at fair value as of June 30, 2022				
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ 57,394	\$ -	\$ -	\$ 57,394
Treasury bonds	20,000	-	-	20,000
Beneficial interest in funds held by others	-	-	308,204	308,204
Total assets	<u>\$ 77,394</u>	<u>\$ -</u>	<u>\$ 308,204</u>	<u>\$ 385,598</u>

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,:

	2023	2022
Balance, beginning of year	\$ 308,204	\$ 275,129
Purchases and reinvested interest	1,000	51,432
Change in value	18,371	(14,952)
Fees	(3,264)	(2,970)
Distributions	(458)	(435)
Balance, end of year	<u>\$ 323,853</u>	<u>\$ 308,204</u>

8. Notes Payable

Notes payable consists of the following at June 30,:

	2023	2022
Note payable to a non-profit corporation, requiring monthly installments of \$2,694 including annual interest at 7% through April 2027.	\$ 364,299	\$ 370,869
Total notes payable	364,299	370,869
Less current portion	(7,045)	(6,570)
Note payable, non-current portion	<u>\$ 357,254</u>	<u>\$ 364,299</u>

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LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

8. Notes Payable, Continued

Scheduled future maturities of the note payable are:

For the year
ended June 30,

2024	\$ 7,045
2025	7,554
2026	8,100
2027	341,600
	<u>\$ 364,299</u>

9. Net Assets With Donor Restrictions

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

	2023	2022
Subject to expenditure for specified purpose:		
Youth Center	\$ 5,000	\$ 5,800
Reading Seed	411,000	27,000
Reach Out and Read	27,166	66,833
Stories That Soar!	882,695	5,000
Other purposes	113,500	30,000
	<u>1,439,361</u>	<u>134,633</u>
Endowments:		
Subject to appropriation and expenditure:		
Accumulated earnings on original perpetual endowment gifts	37,862	23,935
Not subject to spending policy or appropriation, beneficial interest in funds held, original perpetual gifts	<u>274,914</u>	<u>273,914</u>
Net assets with donor restrictions	<u>\$ 1,752,137</u>	<u>\$ 432,482</u>

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NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

9. Net Assets With Donor Restrictions, Continued

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2023:

	Contributions	Change in Value of Beneficial Interest in Funds Held	Releases
Subject to expenditure for specified purpose:			
Youth Center	\$ 13,400	\$ -	\$ (14,200)
Reading Seed	606,397	-	(222,397)
Reach Out and Read	34,500	-	(74,167)
Stories That Soar!	1,073,650	-	(195,955)
Other purposes	182,520	-	(99,020)
	<u>1,910,467</u>	<u>-</u>	<u>(605,739)</u>
Endowments:			
Subject to appropriation and expenditure:			
Accumulated endowment earnings	-	13,927	-
Not subject to spending policy or appropriation, beneficial interest in funds held, original perpetual gifts	<u>1,000</u>	<u>-</u>	<u>-</u>
Net assets with donor restrictions	<u>\$ 1,911,467</u>	<u>\$ 13,927</u>	<u>\$ (605,739)</u>

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2022:

	Contributions	Change in Value of Beneficial Interest in Funds Held	Releases
Subject to expenditure for specified purpose:			
Youth Center	\$ 40,800	\$ -	\$ (35,000)
Reading Seed	207,000	-	(215,000)
Reach Out and Read	40,500	-	(51,167)
Stories That Soar!	41,000	-	(53,500)
Other purposes	60,000	-	(50,000)
	<u>389,300</u>	<u>-</u>	<u>(404,667)</u>
Endowments:			
Subject to appropriation and expenditure:			
Accumulated endowment earnings	-	(16,371)	-
Not subject to spending policy or appropriation, beneficial interest in funds held, original perpetual gifts	<u>51,000</u>	<u>-</u>	<u>-</u>
Net assets with donor restrictions	<u>\$ 440,300</u>	<u>\$ (16,371)</u>	<u>\$ (404,667)</u>

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LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

10. 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.

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 \$-0- as of June 30, 2023 and 2022.

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.

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LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

10. Endowments, Continued

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, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2022	\$ 10,355	\$ 297,849	\$ 308,204
Contributions	-	1,000	1,000
Change in value of beneficial interests in funds held at JCF and CFSA	722	13,927	14,649
Balance, June 30, 2023	<u>\$ 11,077</u>	<u>\$ 312,776</u>	<u>\$ 323,853</u>

Endowment fund net asset activity consists of the following for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2021	\$ 11,909	\$ 263,220	\$ 275,129
Contributions	432	51,000	51,432
Change in value of beneficial interests in funds held at JCF and CFSA	(1,986)	(16,371)	(18,357)
Balance, June 30, 2022	<u>\$ 10,355</u>	<u>\$ 297,849</u>	<u>\$ 308,204</u>

11. In-Kind Contributions

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

	2023	2022
Professional tutors	\$ 273,123	\$ 163,327
Professional services	6,850	8,425
Public relations	-	1,231
Computer software & supplies	500	-
Total in-kind contributions	<u>\$ 280,473</u>	<u>\$ 172,983</u>

The above amounts were utilized in the Organization's programs and administrative services and are recorded at fair market value.

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LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2023 and 2022

12. Commitments

The Organization leases office equipment under operating leases with various expirations through December 2023. Total rent expense for the years ended June 30, 2023 and 2022 was \$19,960 and \$16,092, respectively. Scheduled future minimum lease payments due under the leases are \$4,298 for the year ended June 30, 2024.

13. 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 \$31,968 and \$26,296, respectively, for the years ended June 30, 2023, and 2022.

14. Net Asset Restatement

Net assets at June 30, 2022 have been restated to reflect a correction to the balance of net property and equipment. The Organization became aware of the error in the June 30, 2022 property and equipment balances during the year ended June 30, 2023. As a result of the restatement, net assets without donor restrictions have been decreased by \$47,469 as of June 30, 2022, and the change in net assets as previously reported for the year ended June 30, 2022 has been decreased by \$47,469.

15. Subsequent Events

The Organization was unaware of any subsequent events as of April 26, 2024, the date the financial statements were available to be issued.

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