

LITERACY CONNECTS

Audited Financial Statements

For the year ended June 30, 2024
(with comparative totals for the year ended June 30, 2023)

LITERACY CONNECTS

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 20

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Literacy Connects

Opinion

We have audited the accompanying financial statements of Literacy Connects (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year 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 Connects as of June 30, 2024, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Connects and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Connect'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 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.



INDEPENDENT AUDITOR'S REPORT, Continued

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

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 Connect'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 Connect'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.

Other Matter

The 2023 financial statements were reviewed by us and our report thereon, dated April 26, 2024, stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. A review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

LYDWIG KLEWER & RUDNER PLLC

December 4, 2024

LITERACY CONNECTS

STATEMENTS OF FINANCIAL POSITION For the years ended June 30, 2024 and 2023

ASSETS

	2024	2023
Current assets:		
Cash	\$ 775,796	\$ 1,087,638
Accounts receivable	53,462	23,302
Grants receivable	-	30,587
Unconditional promises to give, current portion	250,000	250,000
Investments - other	409,928	39,752
Prepaid expenses	84,180	35,952
Total current assets	1,573,366	1,467,231
Unconditional promises to give, non-current portion, net	406,079	625,195
Investments	30,000	127,662
Beneficial interest in funds held by others	341,076	323,853
Property and equipment, net	1,670,499	1,740,817
Intangible assets	13,680	-
Other assets	3,224	3,224
Total assets	\$ 4,037,924	\$ 4,287,982

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 29,794	\$ 13,587
Accrued payroll and related expenses	107,613	73,052
Note payable, current portion	-	7,045
Total current liabilities	137,407	93,684
Note payable, non-current portion	-	357,254
Total liabilities	137,407	450,938
Net assets:		
Without donor restrictions:		
Undesignated	1,060,067	697,312
Expended for property and equipment	1,684,179	1,376,518
Designated by the board for endowment	11,829	11,077
Total net assets without donor restrictions	2,756,075	2,084,907
With donor restrictions:		
Purpose restrictions	815,195	1,439,361
Subject to appropriation and expenditure	53,333	37,862
Perpetual in nature	275,914	274,914
Total net asset with donor restrictions	1,144,442	1,752,137
Total net assets	3,900,517	3,837,044
Total liabilities and net assets	\$ 4,037,924	\$ 4,287,982

See independent auditor's report
and notes to financial statements.

LITERACY CONNECTS
STATEMENT OF ACTIVITIES
For the year ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 1,848,508	\$ 1,000	\$ 1,849,508
Grants	520,956	350,696	871,652
Government contracts	297,072	-	297,072
In-kind contributions	790,463	-	790,463
Special events	146,406	-	146,406
Program service fees	18,328	-	18,328
Change in value of beneficial interest in funds held by others	752	15,471	16,223
Investment income	44,848	-	44,848
Net assets released from restrictions:			
Purpose restrictions satisfied by expenditures	974,862	(974,862)	-
Total revenues and support	4,642,196	(607,695)	4,034,501
Expenses:			
Program services	3,340,023	-	3,340,023
Fundraising	452,643	-	452,643
Management and general	178,361	-	178,361
Total expenses	3,971,027	-	3,971,027
Change in net assets	671,168	(607,695)	63,473
Net assets, beginning of year, restated	2,084,907	1,752,137	3,837,044
Net assets, end of year	\$ 2,756,075	\$ 1,144,442	\$ 3,900,517

See independent auditor's 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	\$ 670,719	\$ 448,117	\$ 1,118,836
Grants	455,324	1,463,350	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 income	16,019	-	16,019
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

See independent auditor's report
and notes to financial statements.

LITERACY CONNECTS

STATEMENT OF FUNCTIONAL EXPENSES For the year ended June 30, 2024

	Program Services	Fund- Raising	General and Administrative	Total
Salaries	\$ 1,542,276	\$ 201,965	\$ 91,802	\$ 1,836,043
Payroll taxes	136,802	17,914	8,143	162,859
Employee benefits	161,466	21,144	9,611	192,221
Total employee expenses	1,840,544	241,023	109,556	2,191,123
Training and tutors	782,974	-	7,865	790,839
Professional services	135,663	17,765	8,075	161,503
Professional educators and consultants	106,166	12,991	5,905	125,062
Direct donor benefit costs	-	124,341	-	124,341
Program supplies	79,330	-	-	79,330
Equipment rental and maintenance	62,762	8,176	3,716	74,654
Depreciation	59,651	7,823	2,844	70,318
Library purchases	60,462	-	-	60,462
Office supplies	47,127	5,273	2,183	54,583
Communications	35,048	1,926	1,541	38,515
Printing and publications	30,150	3,902	1,419	35,471
Occupancy	31,543	1,372	1,371	34,286
Insurance	28,148	3,643	1,325	33,116
Conferences and meetings	18,594	5,654	5,199	29,447
Miscellaneous	8,745	1,590	11,921	22,256
Interest expense	-	-	14,805	14,805
Dues and subscriptions	9,416	1,219	443	11,078
Public relations	-	11,075	-	11,075
Postage	2,133	4,665	100	6,898
Employee appreciation	1,567	205	93	1,865
Total functional expenses	\$ 3,340,023	\$ 452,643	\$ 178,361	\$ 3,971,027

See independent auditor's report
and notes to financial statements.

LITERACY CONNECTS

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

See independent auditor's report
and notes to financial statements.

LITERACY CONNECTS

STATEMENTS OF CASH FLOWS For the years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 63,473	\$ 980,153
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	70,318	85,394
Change in value of beneficial interest in funds held by others	(16,223)	(14,649)
Note payable forgiven	(360,249)	-
Realized and unrealized gain on investments	(3,315)	(1,602)
Changes in operating assets and liabilities:		
Accounts receivable	(30,160)	8,384
Grants receivable	30,587	(30,587)
Unconditional promises to give	219,116	(875,195)
Prepaid expenses	(48,228)	(9,973)
Accounts payable and accrued expenses	16,207	(5,942)
Accrued payroll and related expenses	34,561	(3,449)
Total adjustments	(87,386)	(847,619)
Net cash (used in) provided by operating activities	(23,913)	132,534
Cash flows from investing activities:		
Purchases of property and equipment	-	(83,872)
Purchases of intangible assets	(13,680)	-
Proceeds from sale of investments	690,000	245,954
Purchases of investments	(589,199)	(294,373)
Purchases of investments - other	(410,000)	(40,000)
Proceeds from sale of investments - other	40,000	-
Purchase of beneficial interest in funds held by others	(1,000)	(1,000)
Net cash used in investing activities	(283,879)	(173,291)
Cash flows from financing activities:		
Repayments on note payable	(4,050)	(6,570)
Net cash used in financing activities	(4,050)	(6,570)
Change in cash	(311,842)	(47,327)
Cash, beginning of year	1,087,638	1,134,965
Cash, end of year	\$ 775,796	\$ 1,087,638
Supplemental schedule of cash flow information:		
Cash paid during the year for taxes	\$ -	\$ -
Cash paid during the year for interest	\$ 14,805	\$ 25,753
Note payable forgiven	\$ 360,249	\$ -

See independent auditor's report
and notes to financial statements.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

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, 2024 and 2023 include \$11,829 and \$11,077, 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

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

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, 2024 and 2023. 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, 2024 and 2023, the Organization had cash and investments in the amounts of \$393,791 and \$736,058 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 as of June 30, 2023. There are no grants receivable as of June 30, 2024. There are no accounts receivable balances at June 30, 2024 and 2023 that are 90 days or more past due. The grants receivable balance is current as of June 30, 2024 and 2023. Management believes all accounts and grants receivable are collectible and that no reserve is necessary at June 30, 2024 and 2023.

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

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, 2024 and 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, 2024 and 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, 2024 and 2023 are \$341,076, and \$323,853, 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 \$2,500 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

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

2. Summary of Significant Accounting Policies, Continued

Intangible Assets

Intangible assets in the amount of \$13,680 at June 30, 2024 are comprised of amounts paid for copyrights and patents in connection with the Stories that Soar! program. The copyrights will expire after 120 years, and the patents will be renewed every 10 years. As a result, management will not amortize these intangible assets, rather will evaluate them annually for impairment. As of June 30, 2024, management does not believe the value of these intangible assets is impaired.

Advertising

The Organization expenses all advertising costs as incurred. Advertising expense was \$11,075 and \$229 for the years ended June 30, 2024 and 2023, respectively. These costs are included in public relations in the accompanying statements 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 \$786,538 and \$273,123, respectively, for the years ended June 30, 2024 and 2023. 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, 2024 and 2023, 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 certificates of deposit held for investment that are not debt securities. The certificates of deposit mature between July and October 2024 and have an annual fixed interest rates of 5.1 to 5.4%. 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.

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

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, 2024, 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.

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,:

	2024	2023
Cash	\$ 775,796	\$ 1,087,638
Accounts receivable	53,462	23,302
Grants receivable	-	30,587
Unconditional promises to give, current portion	250,000	250,000
Investments - other	409,928	39,752
Total financial assets available within one year	1,489,186	1,431,279
Less:		
Amounts unavailable for general expenditures within one year due to:		
Purpose restrictions	(409,116)	(814,166)
Total financial assets available to management for general expenditure within one year	\$ 1,080,070	\$ 617,113

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.

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

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:

	2024	2023
<u>For the year ended June 30,</u>		
2024	\$ -	\$ 250,000
2025	250,000	250,000
2026	250,000	250,000
2027	250,000	250,000
Total unconditional promises to give	750,000	1,000,000
Less discount to present value at 7%	(93,921)	(124,805)
Unconditional promises to give, net	656,079	875,195
Less current portion	(250,000)	(250,000)
Non-current portion	<u>\$ 406,079</u>	<u>\$ 625,195</u>

5. Investments

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

	2024	2023
Fixed income securities	\$ -	\$ 97,662
U.S. Treasury bonds	30,000	30,000
Total investments	<u>\$ 30,000</u>	<u>\$ 127,662</u>

Investment income is comprised of the following for the year ended June 30,:

	2024	2023
Interest and dividends	\$ 41,533	\$ 14,417
Unrealized and realized gain	3,315	1,602
Investment income	<u>\$ 44,848</u>	<u>\$ 16,019</u>

6. Property and Equipment

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

	2024	2023
Buildings and improvements	\$ 1,821,246	\$ 1,821,246
Land and improvements	213,847	213,847
Furniture, fixtures and vehicle	78,112	78,112
Computer equipment	69,246	69,246
Library books	30,804	30,804
Total property and equipment	2,213,255	2,213,255
Less accumulated depreciation	(542,756)	(472,438)
Property and equipment, net	<u>\$ 1,670,499</u>	<u>\$ 1,740,817</u>

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

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 Literacy Connects 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 methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2024 and 2023.

- *U.S. Treasury bonds and securities:* Valued at fair value based on national trade listing.
- *Beneficial interest in trusts held by others and trusts:* Valued at the fair value of the underlying investments as reported by the third parties.

The methods 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 Literacy Connects believes its valuation methods are 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.

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

7. Fair Value Measurements, Continued

Fair values of assets measured on a recurring basis are:

	Assets at fair value as of June 30, 2024			
	Level 1	Level 2	Level 3	Total
U.S. Treasury bonds	\$ 30,000	\$ -	\$ -	\$ 30,000
Beneficial interest in funds held by others	-	-	341,076	341,076
Total assets	\$ 30,000	\$ -	\$ 341,076	\$ 371,076

	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	\$ 127,662	\$ -	\$ 323,853	\$ 451,515

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,:

	2024	2023
Balance, beginning of year	\$ 323,853	\$ 308,204
Purchases and reinvested interest	1,000	1,000
Change in value	32,394	18,371
Fees	(3,354)	(3,264)
Distributions	(12,817)	(458)
Balance, end of year	\$ 341,076	\$ 323,853

8. Note Payable

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

	2024	2023
Note payable to a non-profit corporation, requiring monthly installments of \$2,694 including annual interest at 7% through April 2027. The remaining principal balance was forgiven on January 24, 2024.	\$ -	\$ 364,299
Total note payable	-	364,299
Less current portion	-	(7,045)
Note payable, non-current portion	\$ -	\$ 357,254

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

9. Net Assets with Donor Restrictions

Net assets with donor restrictions are restriction as follows as of June 30,:

	2024	2023
Subject to expenditure for specified purpose:		
Youth Center	\$ -	\$ 5,000
Reading Seed	190,000	411,000
Reach Out and Read	-	27,166
Stories That Soar!	625,195	882,695
Other purposes	-	113,500
	<u>815,195</u>	<u>1,439,361</u>
Endowments:		
Subject to appropriation and expenditure:		
Accumulated earnings on original perpetual endowment gifts	53,333	37,862
Not subject to spending policy or appropriation, beneficial interest in funds held, original perpetual gifts	<u>275,914</u>	<u>274,914</u>
Net assets with donor restrictions	<u>\$ 1,144,442</u>	<u>\$ 1,752,137</u>

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2024:

	Contributions	Change in Value of Beneficial Interest in Funds Held	Releases
Subject to expenditure for specified purpose:			
Youth Center	\$ 31,446	\$ -	\$ (36,446)
Reading Seed	146,750	-	(367,750)
Reach Out and Read	39,000	-	(66,166)
Stories That Soar!	73,500	-	(331,000)
Other purposes	60,000	-	(173,500)
	<u>350,696</u>	<u>-</u>	<u>(974,862)</u>
Endowments:			
Subject to appropriation and expenditure:			
Accumulated endowment earnings	-	15,471	-
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>\$ 351,696</u>	<u>\$ 15,471</u>	<u>\$ (974,862)</u>

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

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)
	1,910,467	-	(605,739)
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	1,000	-	-
Net assets with donor restrictions	\$ 1,911,467	\$ 13,927	\$ (605,739)

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.

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

10. Endowments, Continued

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, 2024 and 2023.

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, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, June 30, 2023	\$ 11,077	\$ 312,776	\$ 323,853
Contributions	-	1,000	1,000
Change in value of beneficial interests in funds held at JCF and CFSA	752	15,471	16,223
Balance, June 30, 2024	<u>\$ 11,829</u>	<u>\$ 329,247</u>	<u>\$ 341,076</u>

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, 2023	\$ 11,077	\$ 312,776	\$ 323,853
Contributions	-	1,000	1,000
Change in value of beneficial interests in funds held at JCF and CFSA	752	15,471	16,223
Balance, June 30, 2024	<u>\$ 11,829</u>	<u>\$ 329,247</u>	<u>\$ 341,076</u>

See independent auditor's report.

LITERACY CONNECTS

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2024 and 2023

11. In-Kind Contributions

In-kind contributions consist of the following for the year ended June 30, 2024:

	2024	2023
Professional tutors	\$ 786,538	\$ 273,123
Professional services	3,126	6,850
Computer software & supplies	799	500
Total in-kind contributions	<u>\$ 790,463</u>	<u>\$ 280,473</u>

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

12. 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 \$46,074 and \$31,968, respectively, for the years ended June 30, 2024, and 2023.

13. Subsequent Events

The Organization was unaware of any subsequent events as of December 4, 2024, the date the financial statements were available to be issued.

See independent auditor's report.