

LITERACY SOURCE,
A COMMUNITY LEARNING CENTER

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2017 and 2016

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C e r t i f i e d P u b l i c A c c o u n t a n t s

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Literacy Source, A Community Learning Center (also referred to as Literacy Source) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

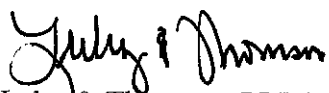
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of the material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies as used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Literary Source as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Luby & Thomson, PLLC
Certified Public Accountants
Seattle, WA
December 19, 2017

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 214,829	\$ 215,983
Accounts receivable	115,789	94,733
Prepaid expenses	9,550	10,797
Total Current Assets	<u>340,168</u>	<u>321,513</u>
OTHER ASSETS:		
Equipment and leasehold improvements	181,049	181,049
Accumulated depreciation	(42,673)	(8,535)
Deposits	6,463	6,463
TOTAL ASSETS	<u>\$ 485,007</u>	<u>\$ 500,490</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 8,929	\$ 2,902
Accrued payroll liabilities	12,866	11,736
Straight line lease liability	24,872	27,724
Total current liabilities	<u>46,667</u>	<u>42,362</u>
NET ASSETS:		
Unrestricted	436,453	439,004
Temporarily restricted	1,887	19,124
Total Net Assets	<u>438,340</u>	<u>458,128</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 485,007</u>	<u>\$ 500,490</u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENTS OF ACTIVITIES AND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
UNRESTRICTED NET ASSETS		
Revenue and support:		
Washington State Board for Community and Technical Colleges grants	\$ 122,558	\$ 115,530
Other government funding	245,097	231,201
Foundation grants	83,193	99,050
Contract revenue	85,164	92,668
Contributions	266,147	283,216
Interest income	722	759
In-kind donations	88,917	65,933
	891,798	888,357
Net assets released from restrictions	19,124	5,163
Total unrestricted revenue and support	910,922	893,520
Expenses:		
Program service	838,302	694,451
Management and general	50,398	93,788
Fundraising	24,773	35,318
	913,473	823,557
Increase (Decrease) in unrestricted net assets	(2,551)	69,963
TEMPORARILY RESTRICTED NET ASSETS		
Foundation grants	1,887	17,500
Contributions	-	1,624
Net assets released from restriction	(19,124)	(5,163)
	(17,237)	13,961
Increase (Decrease) in temporarily restricted net assets	(17,237)	13,961
INCREASE (DECREASE) IN NET ASSETS	(19,788)	83,924
NET ASSETS, beginning of year	458,128	374,204
NET ASSETS, end of year	\$ 438,340	\$ 458,128

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Program Service</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 469,745	\$ 18,076	\$ 3,647	\$ 491,468
AmeriCorp	15,276	-	-	15,276
Payroll taxes and benefits	75,821	2,245	412	78,478
Total payroll & related expenses	<u>560,842</u>	<u>20,321</u>	<u>4,059</u>	<u>585,222</u>
Occupancy	76,450	4,478	323	81,251
Depreciation	32,090	2,048	-	34,138
Contract services	16,065	3,000	850	19,915
Supplies	10,134	544	815	11,493
Equipment leases & repair	11,295	-	-	11,295
Tech supplies & licenses	9,931	571	138	10,640
Educational materials	9,719	-	-	9,719
Professional fees	-	8,870	-	8,870
Telephone and internet	8,114	516	-	8,630
Event expenses	-	-	16,008	16,008
Travel and transportation	5,289	268	-	5,557
Insurance	4,897	-	-	4,897
Staff professional training	2,364	470	-	2,834
Education/Training/Outreach	1,409	808	90	2,307
Dues and licenses	1,872	-	361	2,233
Childcare	2,113	-	-	2,113
Student success	2,085	-	-	2,085
Bank service charges	80	10	1,994	2,084
Meals & events	249	1,755	25	2,029
Postage and delivery	1,062	64	110	1,236
In-kind expenses	82,242	6,675	-	88,917
Total Expense	<u><u>\$ 838,302</u></u>	<u><u>\$ 50,398</u></u>	<u><u>\$ 24,773</u></u>	<u><u>\$ 913,473</u></u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Program Service</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 424,780	\$ 29,336	\$ 7,051	\$ 461,167
AmeriCorp	10,667	-	-	10,667
Payroll taxes and benefits	65,389	2,869	679	68,937
Total payroll & related expenses	<u>500,836</u>	<u>32,205</u>	<u>7,730</u>	<u>540,771</u>
Occupancy	90,179	-	-	90,179
Contract services	6,631	8,377	6,640	21,648
Event expenses	-	55	14,277	14,332
Facilities	13,047	-	-	13,047
Equipment leases & repair	-	9,390	-	9,390
Depreciation	8,535	-	-	8,535
Tech supplies & licenses	-	8,389	67	8,456
Professional fees	-	6,690	-	6,690
Supplies	1,137	5,016	21	6,174
Telephone and internet	-	6,126	-	6,126
Travel and transportation	5,278	-	-	5,278
Education/Training/Outreach	3,372	1,797	-	5,169
Relocation	4,943	-	-	4,943
Insurance	-	3,782	-	3,782
Printing and reproduction	-	2,346	-	2,346
Educational materials	2,027	9	-	2,036
Staff professional training	1,168	645	-	1,813
Bank service charges	-	325	1,473	1,798
Book expenses	1,506	-	-	1,506
Postage and delivery	41	1,038	387	1,466
Meals & events	-	1,348	-	1,348
Dues and licenses	501	291	-	792
In-kind expenses	55,250	5,959	4,723	65,932
Total Expense	<u>\$ 694,451</u>	<u>\$ 93,788</u>	<u>\$ 35,318</u>	<u>\$ 823,557</u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (19,788)	\$ 83,924
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	10,640	8,535
(Increase) decrease in accounts receivable	(21,056)	(57,807)
(Increase) decrease in prepaid expenses	1,247	(4,170)
(Increase) decrease in deposits	-	537
Increase (decrease) in accounts payable	6,027	(9,221)
Increase (decrease) in accrued payroll expense	1,130	5,845
Increase (decrease) in straight line lease liability	(2,852)	27,724
Increase (decrease) in deferred revenue	-	(58,500)
Net cash provided (used) by operating activities	(1,154)	(3,133)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(181,049)
Net cash provided (used) by investing activities	-	(181,049)
NET INCREASE (DECREASE) IN CASH	(1,154)	(184,182)
CASH AND CASH EQUIVALENTS, beginning of the period	215,983	400,165
CASH AND CASH EQUIVALENTS, end of the period	\$ 214,829	\$ 215,983

SUPPLEMENTAL SCHEDULE OF CASH FLOWS INFORMATION

Cash paid during the year for:

Interest	\$ -	\$ -
Federal Income Taxes	\$ -	\$ -

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

Note 1. **Organization and Significant Accounting Policies**

Literacy Source, A Community Learning Center, (the Organization), established in 2001, is a nonprofit corporation located in Seattle, Washington. The Organization provides a safe, non-judgmental educational environment where adults can improve basic reading, writing, computing, English speaking and life skills. The Organization assists adults in improving their basic life skills with the assistance of community volunteers, trained and supported by professional staff and consultants, who effectively facilitate this improvement. The Organization encourages and celebrates the challenge of developing the habit of independent, life-long learning. Services are provided at no cost.

The Organization has been providing unique and responsive adult literacy services since 1986, when it was a part of another nonprofit organization. During the first few years, they focused primarily on adult basic literacy instruction in Seattle's North End. Today, services also include English for Speakers of other Languages (ESOL), one-on-one tutoring at all levels, digital literacy, workplace basic skills, citizenship and high school completion classes and support.

The Organization's mission is to build a literate community by providing learner-centered instruction to adults in English literacy and basic life skills. Literacy Source believes that all adults can improve their basic life skills and that community volunteers, trained and supported by professional staff, can make this happen. They welcome the challenge of developing the habit of independent lifelong learning.

The Organization's story unfolds each day in their office – and in homes, community centers, and workplaces around Seattle and the Puget Sound region – as adult learners work towards literacy, language skills, citizenship, better jobs and better lives. They make a difference, to students, volunteers, families, employers and communities.

Basis of presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of American. Financial statement presentation requires the organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. These classes of net assets are further described as follows:

- *Unrestricted Net Assets* – Support received without donor restriction is considered unrestricted.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

Note 1. Organization and Significant Accounting Policies (continued)

- *Temporarily Restricted Net Assets* – Support received subject to donor-imposed time restrictions or stipulations for a particular purpose is considered temporarily restricted. When donor time restrictions expire or when donor program restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.
- *Permanently Restricted Net Assets* – Support received in the form of endowment or sustaining funds is considered permanently restricted. The principal of permanently restricted contributions is restricted in perpetuity and the income is utilized for the purposes specified by the donor.

The Organization has no permanently restricted net assets.

Cash and cash equivalents: For purposes of the statements of financial position and cash flows, the Organization considers all highly liquid investments, which are readily convertible into known amounts of cash, have a maturity of three months or less, and have no temporary or permanent restrictions to be cash equivalents.

Concentrations of Credit Risk: The Organization maintains its cash accounts in financial institutions in Seattle, Washington. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank. There were no uninsured balances at June 30, 2017 or 2016.

Accounts receivable: Accounts receivable are stated at the amount management expects to collect from outstanding balances within the next year. Management does not provide for uncollectible accounts as they believe all accounts are collectible.

Equipment: Equipment is stated at cost, or if donated, at estimated fair value at date of donation. Long-lived assets with original purchase price greater than \$2,000 are capitalized and depreciated using the straight-line method over the estimated useful lives of the asset of 5 to 7 years.

Recognition of donor restricted contributions: Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

Note 1. Organization and Significant Accounting Policies (continued)

Contributed services: Many citizens and Board members have made significant contributions of time to the Organization's program, policy-making, fundraising, and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services under accounting principles generally accepted in the United States of America and, accordingly, is not reflected in the accompanying financial statements.

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

Functional allocation of expense: The costs of providing the various program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Income Tax Status: The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for federal income taxes has been made in the accompanying financial statements. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Organization files information and tax returns in the U.S. federal jurisdiction, and in state and local jurisdictions. The Organization has been subject to U.S. federal, state and local examinations by tax authorities for the current year and certain prior years, based on applicable laws and regulations, and has determined there are no uncertain tax positions for those years. The accompanying financial statements contain no interest or penalties with respect to federal income taxes for the years ended June 30, 2017 and 2016, respectively.

Cost reimbursement contracts: Revenues under cost-reimbursement type contracts are recognized based on billings submitted for reimbursement and are subject to audit and retroactive adjustments made by the funding agencies. No adjustments were made for the years ended June 30, 2017 or 2016, respectively.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

Note 2. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 consist of funds restricted by the donors to fund childcare supplies and furnishings. Temporarily restricted net assets at June 30, 2016 consist of funds restricted by the donors to fund student success and capacity building. As of June 30, 2017 and 2016, these temporarily restricted funds totaled \$1,887 and \$19,124, respectively.

Note 3. Operating Leases

The Organization moved locations within the Seattle area from Fremont to Lake City during the year ended June 30, 2016. The rental lease for the Lake City space was for five years, which commenced on November 1, 2015. The lease included a free rent period and escalating rents. Straight line lease liability is included in the balance sheet and is being amortized over the life of the lease. Future minimum payments under this lease are as follows for the years ended June 30:

2018	72,392
2019	74,560
2020	76,800
2021	<u>25,852</u>
	<u>\$ 249,604</u>

Rent expense was \$67,428 and \$83,105 for the years ended June 30, 2017 and 2016, respectively.

Note 4. Economic Dependence

The Washington State Board of Community and Technical Colleges provided approximately 14% and 13% of the total support and revenue for the years ended June 30, 2017 and 2016, respectively.

Note 5. In-kind Contributions

Contributed goods and services are recorded at rates that would have been paid for similar good and services purchased. The Organization received in-kind donations of \$88,917 and \$65,933 in AmeriCorps services, VISTA services, and computer technical support for the years ended June 31, 2017 and 2016, respectively.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

Note 6. Retirement Plan

The Organization sponsors a 403(b) retirement plan for eligible employees. Under the Plan, the Organization matches employee contributions up to 3% of gross salary for eligible employees. Employer contributions totaled \$7,277 and \$7,785 for the years ended June 30, 2017 and 2016, respectively.

Note 7. Reclassifications

Certain amounts from the June 30, 2016 financial statements were reclassified to conform to the current year presentation. These reclassifications have no impact on net income as previously stated.

Note 8. Subsequent Events

Literacy Source has evaluated subsequent events through the date these financial statements were available to be issued on December 19, 2017.