

LITERACY SOURCE,
A COMMUNITY LEARNING CENTER

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2023 and 2022

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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

Opinion

We have audited the accompanying financial statements of Literacy Source, A Community Learning Center, which comprise the statements of financial position as of June 30, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Literacy Source, A Community Learning Center as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Luby + Thomson

Luby and Thomson, PLLC
Certified Public Accountants
Bellevue, Washington
January 25, 2024

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

<u>ASSETS</u>		
	2023	2022
CURRENT ASSETS:		
Cash and cash equivalents	\$ 535,887	\$ 394,933
Accounts receivable	155,190	210,872
Prepaid expenses	22,441	13,096
Total current assets	713,518	618,901
Equipment and leasehold improvements	181,049	181,049
Accumulated depreciation	(181,049)	(177,166)
Net fixed assets	-	3,883
Operating lease right of use assets	218,787	308,565
Deposits	6,463	6,463
TOTAL ASSETS	\$ 938,768	\$ 937,812
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,484	\$ 4,335
Accrued payroll liabilities	33,810	14,743
Deferred revenue	12,075	-
Total current liabilities	50,369	19,078
Operating lease liabilities	226,499	315,220
TOTAL LIABILITIES	276,868	334,298
NET ASSETS:		
Without donor restrictions		
Undesignated	637,421	556,026
Board designated	2,223	12,918
	639,644	568,944
With donor restrictions	22,256	34,570
Total net assets	661,900	603,514
TOTAL LIABILITIES AND NET ASSETS	\$ 938,768	\$ 937,812

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, 2023 AND 2022**

	2023	2022
WITHOUT DONOR RESTRICTIONS		
Revenue and support:		
Washington State Board for Community and Technical Colleges grants	\$ 261,585	\$ 192,916
Other government funding	515,365	443,235
Foundation grants	101,382	182,825
Contract revenue	75,000	24,563
Contributions	407,000	313,933
Interest income	909	264
Other income	785	-
In-kind donations	30,322	33,140
	1,392,348	1,190,876
Net assets released from restrictions	34,570	18,673
Total revenue and support without donor restrictions	1,426,918	1,209,549
Expenses:		
Program service	1,080,203	903,839
Management and general	156,184	154,444
Fundraising	119,831	106,655
	1,356,218	1,164,938
Total expenses	1,356,218	1,164,938
Increase (Decrease) in net assets without donor restrictions	70,700	44,611
WITH DONOR RESTRICTIONS		
Foundation grants	18,000	28,175
Contributions	4,256	6,344
Net assets released from restriction	(34,570)	(18,673)
	(12,314)	15,846
Increase (Decrease) in net assets with donor restrictions	(12,314)	15,846
INCREASE (DECREASE) IN NET ASSETS	58,386	60,457
NET ASSETS, beginning of year	603,514	543,057
NET ASSETS, end of year	\$ 661,900	\$ 603,514

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, 2023**

	Program Service	Management & General	Fundraising	Total
Salaries and wages	\$ 719,853	\$ 100,130	\$ 91,128	\$ 911,111
AmeriCorps	30,952	-	-	30,952
Payroll taxes and benefits	124,758	14,694	17,644	157,096
Total payroll & related expenses	<u>875,563</u>	<u>114,824</u>	<u>108,772</u>	<u>1,099,159</u>
Occupancy	89,268	7,037	513	96,818
Educational materials	30,483	-	-	30,483
Dues and licenses	15,858	5,296	727	21,881
Contract services	10,601	8,074	-	18,675
Professional fees	-	9,895	-	9,895
Equipment leases & repair	7,552	849	85	8,486
Insurance	3,770	2,717	-	6,487
Event expenses	-	-	6,004	6,004
Tech supplies & licenses	4,735	7	-	4,742
Supplies	3,487	546	116	4,149
Depreciation	3,181	354	349	3,884
Meals & events	1,992	1,766	-	3,758
Staff professional training	3,165	-	60	3,225
Bank service charges	7	-	3,181	3,188
Travel and transportation	2,394	-	5	2,399
Telephone and internet	1,766	74	19	1,859
Student success	1,308	-	-	1,308
Postage and delivery	1,081	-	-	1,081
Other expenses	-	3,892	-	3,892
In-kind services	23,992	853	-	24,845
Total Expenses	<u>\$ 1,080,203</u>	<u>\$ 156,184</u>	<u>\$ 119,831</u>	<u>\$ 1,356,218</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, 2022**

	Program Service	Management & General	Fundraising	Total
Salaries and wages	\$ 578,411	\$ 102,492	\$ 77,878	\$ 758,781
AmeriCorps	10,952	-	-	10,952
Payroll taxes and benefits	105,907	17,887	16,464	140,258
Total payroll & related expenses	<u>695,270</u>	<u>120,379</u>	<u>94,342</u>	<u>909,991</u>
Occupancy	90,258	6,381	466	97,105
Educational materials	26,292	-	-	26,292
Dues and licenses	16,738	4,720	1,064	22,522
Contract services	7,068	7,945	-	15,013
Professional fees	-	9,590	-	9,590
Equipment leases & repair	5,115	573	57	5,745
Insurance	3,214	2,525	-	5,739
Event expenses	-	-	6,740	6,740
Tech supplies & licenses	11,048	99	-	11,147
Supplies	5,875	360	90	6,325
Depreciation	4,481	358	340	5,179
Meals & events	1,385	898	119	2,402
Staff professional training	2,814	-	-	2,814
Bank service charges	10	85	3,217	3,312
Travel and transportation	293	-	-	293
Telephone and internet	2,874	116	29	3,019
Student success	1,122	-	-	1,122
Postage and delivery	882	-	191	1,073
In-kind services	29,100	415	-	29,515
Total Expenses	<u>\$ 903,839</u>	<u>\$ 154,444</u>	<u>\$ 106,655</u>	<u>\$ 1,164,938</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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from grants, contributions, and contracts	\$ 1,451,130	\$ 1,080,964
Cash paid to employees and vendors	(1,311,085)	(1,126,283)
Interest and dividends received	909	264
Net cash provided (used) by operating activities	<u>140,954</u>	<u>(45,055)</u>
 NET INCREASE (DECREASE) IN CASH	 140,954	 (45,055)
 CASH AND CASH EQUIVALENTS, beginning of year	 <u>394,933</u>	 <u>439,988</u>
 CASH AND CASH EQUIVALENTS, end of year	 <u>\$ 535,887</u>	 <u>\$ 394,933</u>

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

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS June 30, 2023 and 2022

Note 1. Organization and Significant Accounting Policies

Literacy Source, A Community Learning Center, (the Organization), established in 2001, is a nonprofit corporation located in Seattle, Washington. The Organization provides an inclusive, equitable learning environment where adults can improve basic reading, writing, digital literacy, workplace skills, and English for Speakers of Other Languages (ESOL), as well as apply for citizenship. The Organization works with adults to help them achieve their goals with the assistance of community volunteers. Services are provided at no cost to students.

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

The Organization's mission is to partner with adults working to gain skills and education to create new opportunities for themselves, their families, and the community. Literacy Source believes that all adults can learn and grow, and they value lifelong learning for all. They envision an inclusive and equitable society providing education and opportunities for all adults.

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

Basis of presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation requires the organization to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.
- *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. All of the Organization's net assets with donor restrictions are temporary in nature.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 1. Organization and Significant Accounting Policies (continued)

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

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

Concentrations of credit risk: The Organization maintains its cash accounts in financial institutions in Seattle, Washington. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank. Cash balances may exceed insured limits throughout the year. The Organization has not experienced losses in such accounts.

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

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

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

- *Government funding* – Revenue from government sources consist primarily of cost reimbursement grants. These grants are recognized as revenue in the period the Organization earns the funds by incurring costs in compliance with the agreement. Payment is received after the funds have been earned. The beginning and ending receivables associated with government funding were \$164,312 and \$135,190, respectively, for the year ended June 30, 2023, and \$82,345 and \$164,312, respectively, for the year ended June 30, 2022.

The Organization's billings under the cost reimbursement grants are subject to audit and retroactive adjustments made by the funding agencies. No adjustments were made for the years ended June 30, 2023 or 2022.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 1. Organization and Significant Accounting Policies (continued)

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

Revenues from contributions and grants are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Revenues that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction is met in the reporting period in which the revenue is recognized. All other donor restricted revenues are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

- *Contract revenue* – Contract revenue consists of exchange transactions with employers and unions to provide on-site or virtual classes for employees. Revenue from exchange transactions is recognized in the period the service for the exchanged benefit is performed. If payment is received in advance of services being performed, deferred revenue is recorded. The beginning and ending deferred revenue associated with contract revenue were \$0 and \$6,000, respectively, for the year ended June 30, 2023. There was no deferred revenue at the beginning or end of the year ended June 30, 2022. The beginning and ending receivables associated with contract revenue were \$12,500 and \$7,000, respectively, for the year ended June 30, 2023 and \$0 and \$12,500, respectively, for the year ended June 30, 2022.

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

The Organization received in-kind donations of \$24,845 and \$29,515 in AmeriCorps services and computer technical support for the years ended June 30, 2023 and 2022, respectively.

During the year ended June 30, 2023, the Organization received donated software licenses, Chromebooks, and books valued at \$5,477. During the year ended June 30, 2022, the Organization received donated software licenses valued at \$3,625. Donated goods are valued using the price the Organization would pay if purchasing an equivalent product. Donated goods are not monetized and are used as they are received. The corresponding expenses is recorded in program services in the statement of functional expenses.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 1. Organization and Significant Accounting Policies (continued)

Members of the board of directors and volunteers make significant contributions of time to the Organization's programs and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services under accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, is not reflected in the accompanying financial statements.

Income tax status: The Organization is organized as a Washington state nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. The Organization annually is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. It has determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization has determined there are no uncertain tax positions for the years ended June 30, 2023 or 2022, and the accompanying financial statements contain no interest or penalties with respect to federal income taxes. The Organization's federal income tax returns remain open for examination to the extent prescribed by the Internal Revenue Code.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

Individual expenses that solely relate to one program or supporting service are allocated in full to that category. Expenses that relate to multiple programs or supporting services are allocated as follows:

- *Payroll and related expenses* – allocated based on employee time and effort.
- *Occupancy and depreciation* – allocated based on an estimate of square foot usage of the facilities.
- *Equipment leases & repair and supplies* – allocated based on management's estimates of uses by each program or supporting service.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 2. Availability and Liquidity

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

Financial assets at year end:	2023	2022
Cash and cash equivalents	\$ 535,887	\$ 394,933
Accounts receivable	155,190	210,872
Total financial assets	691,077	605,805
Less amounts not available to be used for general purposes within one year:		
Board designated net assets	2,223	12,918
Net assets with donor restrictions, excluding time restrictions	22,256	9,470
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 666,598</u>	<u>\$ 583,417</u>

The Organization's goal is generally to maintain financial assets to meet three to four months of operating expenses (approximately \$350,000 to \$465,000). Cash and cash equivalents are held in readily available checking and savings accounts.

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

Note 3. Board Designated Net Assets

At June 30, 2023 and 2022, board designated net assets total \$2,223 and \$12,918, respectively, and are designated for Diversity, Equity, and Inclusion work.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 4. Net Assets with Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Program restrictions		
Moving Fund	\$ 15,000	\$ -
Student Technology	7,013	3,175
Student Success Fund	243	51
Drivers Education Class	-	6,244
Time restrictions	-	25,100
	<u>\$ 22,256</u>	<u>\$ 34,570</u>

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

	<u>2023</u>	<u>2022</u>
Program restrictions		
Drivers Education Class	\$ 6,244	\$ -
Student Technology	3,175	-
Student Success Fund	51	570
Staff Technology	-	3,103
Time restrictions	25,100	15,000
	<u>\$ 34,570</u>	<u>\$ 18,673</u>

Note 5. Operating Leases

The Organization leases space in Lake City for offices and classrooms. The rental lease was for five years, which commenced on November 1, 2015. The lease included a free rent period and escalating rents. In July 2020 the Organization signed a renewal of this lease. The renewal extended the lease term through October 31, 2025. The renewal also allows the landlord to terminate the lease early for the purpose of redeveloping the property. If the landlord exercises the right to terminate the lease, the Organization will receive a pro-rated termination fee calculated from the initial cost of tenant improvements. A provision was added to allow the Organization to terminate the lease for any reason with twelve months advance written notice.

The Organization believes it is reasonably likely the Landlord or the Organization will terminate the lease prior to the end of the lease term, however no notice has been given by either party. The timing of lease termination, if any, is unknown, therefore the right of use asset and lease liabilities have been calculated using the full lease term.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS June 30, 2023 and 2022

Note 5. Operating Leases (continued)

The Organization also leases a copier under a five year operating lease beginning in October 2021. The lease requires monthly payments of \$610 plus sales tax and printing overages. The Organization received \$3,000 upon signing of this lease as an incentive to replace the previous copier lease.

The following summarizes the line items in the statements of financial position which include amounts for operating leases as of June 30:

	<u>2023</u>	<u>2022</u>
Operating lease right of use asset	\$ 218,787	\$ 308,565
Operating lease liabilities	226,499	315,220

The Organization's leases do not provide an implicit rate. The Organization used the risk-free rate at the start of the first period presented under the standard. This risk-free rate was 0.89% per annum, and was used to determine the present value of lease payments.

Maturities of the lease liabilities are as follows for the years ended June 30:

2024	\$ 93,688
2025	96,280
2026	37,264
2027	<u>1,830</u>
Total lease payments	229,062
Less: interest	<u>(2,563)</u>
Present value of lease liabilities	<u>\$ 226,499</u>

Rent expense under the office lease was \$85,505 and \$85,505 for the years ended June 30, 2023 and 2022, respectively. Rent expense under the copier lease, excluding sales tax and printing overages, was \$6,720 and \$5,040 for the years ended June 30, 2023 and 2022, respectively.

Note 6. Economic Dependence

The Washington State Board of Community and Technical Colleges provided approximately 18% and 16% of total support and revenue for the years ended June 30, 2023 and 2022, respectively.

An additional government source provided approximately 22% and 21% of total support and revenue for the years ended June 30, 2023 and 2022, respectively.

At June 30, 2023 and 2022, 66% and 56%, respectively, of accounts receivable was due from two sources.

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS June 30, 2023 and 2022

Note 7. Retirement Plan

The Organization sponsors a 403(b) retirement plan for eligible employees. Under the Plan, the Organization matches employee contributions up to 3% of gross salary for eligible employees. Employer contributions totaled \$19,979 and \$14,599 for the years ended June 30, 2023 and 2022, respectively.

Note 8. Change in Accounting Principles

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, Leases. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-10, Codification Improvements to Topic 842, Leases; ASU 2018-11, Leases (Topic 842): Targeted Improvements; ASU 2019-01, Leases (Topic 842): Codification Improvements; and ASU 2021-09, Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statement of financial position.

The Organization elected to adopt these ASUs effective July 1, 2022 and utilized all of the available practical expedients. The adoption had a material impact on the Organization's statement of financial position but did not have a material impact on the statement of activities. The most significant impact was the recognition of right of use assets and lease liabilities for operating leases. Adoption of the standard required the Organization to restate amounts as of the beginning of the earliest period presented. Implementation resulted in the following changes to the Organization's financial statements for the year ended June 30, 2022:

	As Originally Reported	As Currently Presented	Effect of Change
Statement of Financial Position:			
Operating lease right of use assets	-	308,565	308,565
Total assets	629,247	937,812	308,565
Operating lease liabilities	-	315,220	315,220
Deferred copier lease incentive	2,400	-	(2,400)
Total liabilities	21,478	334,298	312,820
Net assets without donor restrictions	573,199	568,944	(4,255)
Total net assets	607,769	603,514	(4,255)
Total liabilities and net assets	629,247	937,812	308,565

LITERACY SOURCE, A COMMUNITY LEARNING CENTER

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 8. Change in Accounting Principles (continued)

	<u>As Originally Reported</u>	<u>As Currently Presented</u>	<u>Effect of Change</u>
Statement of Activities:			
Program service	899,889	903,839	3,950
Management & general	154,160	154,444	284
Fundraising	106,634	106,655	21
Total expenses	1,160,683	1,164,938	4,255
Statement of Functional Expenses:			
Occupancy	93,000	97,105	4,105
Equipment leases & repair	5,595	5,745	150

Note 9. Subsequent Events

Literacy Source has evaluated subsequent events through the date these financial statements were available to be issued on January 25, 2024.