

LITERATIONS CORP.
FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2021 AND 2020

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

80 Flanders Road, Suite 200  Westborough, Massachusetts 01581
Tel: 508.871.7178 Fax: 508.871.7179 www.ssbcpa.com

LITERATIONS CORP.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2021 AND 2020



Literations

Empowering Young Readers

Mission Statement

Literations improves the literacy skills of young children through Grade 3 by engaging professionally trained older adult volunteers as literacy coaches in our partner schools and after-school programs. We serve communities where opportunity gaps exist to ensure all students have the resources to become literacy proficient.

LITERATIONS CORP.
REPORT ON FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Literations Corp.
Boston, Massachusetts

We have audited the accompanying financial statements of Literations Corp., formerly known as Generations Incorporated, (a Massachusetts nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies 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 Literations Corp. as of June 30, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Smith, Sullivan & Brown, PC.

Westborough, Massachusetts
November 8, 2021

LITERATIONS CORP.

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
<u>CURRENT ASSETS:</u>		
Cash	\$ 411,174	\$ 289,259
Cash - Conditional Grant Advance	-	155,900
Accounts Receivable, Program Services	67,766	82,461
Gifts, Grants and Contributions Receivable	58,009	241,919
Prepaid Expenses	6,984	25,019
Total Current Assets	<u>543,933</u>	<u>794,558</u>
<u>NON-CURRENT ASSETS:</u>		
Board Designated Reserves	81,852	81,811
Gifts, Grants and Contributions Receivable	46,000	-
Security Deposit	21,350	17,850
Total Non-Current Assets	<u>149,202</u>	<u>99,661</u>
<u>TOTAL ASSETS</u>	<u>\$ 693,135</u>	<u>\$ 894,219</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Accounts Payable and Accrued Expenses	\$ 43,823	\$ 17,825
Accrued Payroll and Related Costs	77,101	62,117
Conditional Grant Advance	-	155,900
Security Deposit Held	-	3,100
Total Current Liabilities	<u>120,924</u>	<u>238,942</u>
<u>NET ASSETS:</u>		
Net Assets Without Donor Restrictions:		
Undesignated	321,359	228,466
Board Designated Reserve	81,852	81,811
Total Net Assets Without Donor Restrictions	<u>403,211</u>	<u>310,277</u>
Net Assets With Donor Restrictions:		
Program Restricted	69,000	115,000
Time Restricted	100,000	230,000
Total Net Assets With Donor Restrictions	<u>169,000</u>	<u>345,000</u>
Total Net Assets	<u>572,211</u>	<u>655,277</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 693,135</u>	<u>\$ 894,219</u>

LITERATIONS CORP.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	JUNE 30, 2021			JUNE 30, 2020		
	<u>WITHOUT</u>	<u>WITH</u>	<u>TOTAL</u>	<u>WITHOUT</u>	<u>WITH</u>	<u>TOTAL</u>
	<u>DONOR</u>	<u>DONOR</u>		<u>RESTRICTIONS</u>	<u>RESTRICTIONS</u>	
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>	<u>RESTRICTIONS</u>	<u>RESTRICTIONS</u>		<u>RESTRICTIONS</u>	<u>RESTRICTIONS</u>	
<i>Support and Revenues:</i>						
Government Contracts	\$ 334,430	\$ -	\$ 334,430	\$ 305,353	\$ -	\$ 305,353
Participation Fees	78,000	-	78,000	218,625	-	218,625
Foundation and Corporate Grants	55,000	292,000	347,000	514,172	285,000	799,172
Gifts and Contributions	201,462	10,000	211,462	92,646	-	92,646
Paycheck Protection Program Grant	-	155,900	155,900	-	50,000	50,000
Donated Goods, Services and Facilities	145,766	-	145,766	370,527	-	370,527
Special Event Proceeds	124,209	-	124,209	112,848	-	112,848
Rental Income, Sublease	45,000	-	45,000	25,450	-	25,450
Other Income	161	-	161	974	-	974
<i>Reclassification of Net Assets - Released from Restriction:</i>						
Satisfaction of Donor Restrictions	633,900	(633,900)	-	236,848	(236,848)	-
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>1,617,928</u>	<u>(176,000)</u>	<u>1,441,928</u>	<u>1,877,443</u>	<u>98,152</u>	<u>1,975,595</u>
<u>FUNCTIONAL EXPENSES:</u>						
Program Services	1,035,187	-	1,035,187	1,462,516	-	1,462,516
Administrative	252,719	-	252,719	199,852	-	199,852
Fund Raising	237,088	-	237,088	161,530	-	161,530
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>1,524,994</u>	<u>-</u>	<u>1,524,994</u>	<u>1,823,898</u>	<u>-</u>	<u>1,823,898</u>
<u>CHANGE IN NET ASSETS</u>	<u>92,934</u>	<u>(176,000)</u>	<u>(83,066)</u>	<u>53,545</u>	<u>98,152</u>	<u>151,697</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>310,277</u>	<u>345,000</u>	<u>655,277</u>	<u>256,732</u>	<u>246,848</u>	<u>503,580</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 403,211</u>	<u>\$ 169,000</u>	<u>\$ 572,211</u>	<u>\$ 310,277</u>	<u>\$ 345,000</u>	<u>\$ 655,277</u>

LITERATIONS CORP.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

(With Summarized Comparative Totals for 2020)

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND-</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL EXPENSES</u>	
				<u>2021</u>	<u>2020</u>
Salaries and Wages	\$ 498,200	\$ 121,841	\$ 128,617	\$ 748,658	\$ 802,664
Payroll Taxes	49,621	10,693	11,465	71,779	74,539
Fringe Benefits	46,102	8,606	9,861	64,569	59,929
Staff Training and Development	14,055	2,427	3,332	19,814	16,352
Consultants and Professional Fees	43,403	25,060	8,904	77,367	49,065
Professional Fees, In-Kind	-	5,726	-	5,726	-
Event Costs	-	-	4,415	4,415	2,932
Volunteer Background Checks	248	-	-	248	3,511
Volunteer Incentives and Stipends	125,554	9,500	1,800	136,854	246,345
Volunteer Time, In-Kind	108,055	1,985	30,000	140,040	194,301
Program Supplies and Activities	1,822	-	-	1,822	9,634
Depreciation Expense	-	-	-	-	2,300
Equipment Rental and Maintenance	3,397	3,510	1,213	8,120	7,769
General and Professional Liability Insurance	6,124	1,106	1,276	8,506	8,182
Occupancy	77,904	37,205	18,891	134,000	121,845
Occupancy, In-Kind Volunteer Sites	-	-	-	-	173,215
Office Supplies and Expenses	12,546	5,832	3,055	21,433	13,262
Printing and Postage	2,158	326	3,517	6,001	5,180
Recruitment	779	-	-	779	4,169
Information Technology Costs	36,225	6,322	8,334	50,881	-
Telephone and Communications	4,826	4,798	1,725	11,349	9,647
Staff Travel	224	275	20	519	7,678
Advertising	2,607	248	558	3,413	1,246
Miscellaneous Expense	1,337	7,259	105	8,701	10,133
Total Functional Expenses	<u>\$ 1,035,187</u>	<u>\$ 252,719</u>	<u>\$ 237,088</u>	<u>\$ 1,524,994</u>	<u>\$ 1,823,898</u>

LITERATIONS CORP.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND-</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL</u> <u>EXPENSES</u>
Salaries and Wages	\$ 606,233	\$ 85,096	\$ 111,335	\$ 802,664
Payroll Taxes	59,534	5,615	9,390	74,539
Fringe Benefits	42,932	8,227	8,770	59,929
Staff Training and Development	13,877	1,041	1,434	16,352
Consultants and Professional Fees	22,665	20,175	6,225	49,065
Event Costs	-	-	2,932	2,932
Volunteer Background Checks	3,511	-	-	3,511
Volunteer Incentives and Stipends	237,345	9,000	-	246,345
Volunteer Time, In-Kind	192,316	1,985	-	194,301
Program Supplies and Activities	8,695	457	482	9,634
Depreciation Expense	2,070	115	115	2,300
Equipment Rental and Maintenance	4,273	2,719	777	7,769
General and Professional Liability Insurance	6,382	788	1,012	8,182
Occupancy	67,771	41,881	12,193	121,845
Occupancy, In-Kind Volunteer Sites	173,215	-	-	173,215
Office Supplies and Expenses	1,413	9,618	2,231	13,262
Printing and Postage	3,290	1,124	766	5,180
Recruitment	3,979	190	-	4,169
Telephone and Communications	5,142	3,586	919	9,647
Staff Travel	5,263	1,013	1,402	7,678
Advertising	132	-	1,114	1,246
Miscellaneous Expense	2,478	7,222	433	10,133
Total Functional Expenses	<u>\$ 1,462,516</u>	<u>\$ 199,852</u>	<u>\$ 161,530</u>	<u>\$ 1,823,898</u>

LITERATIONS CORP.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ (83,066)	\$ 151,697
<i>Adjustments to Reconcile the Above to Net Cash Provided (Used) by Operating Activities:</i>		
Depreciation Expense	-	2,300
<i>(Increase) Decrease in Current Assets:</i>		
Accounts Receivable, Program Services	14,695	(7,417)
Gifts, Grants and Contributions Receivable	183,910	(71,631)
Prepaid Expenses	18,035	(11,110)
<i>Increase (Decrease) in Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	25,998	(17,257)
Accrued Payroll and Related Costs	14,984	31,052
Conditional Grant Advance	(155,900)	88,031
Deferred Revenue	-	(12,750)
Security Deposit Held	(3,100)	600
<i>(Increase) Decrease in Non-Current Assets:</i>		
Gifts, Grants and Contributions Receivable	(46,000)	30,000
Security Deposit	(3,500)	-
Net Adjustment	<u>49,122</u>	<u>31,818</u>
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	<u>(33,944)</u>	<u>183,515</u>
<u>NET INCREASE (DECREASE) IN CASH BALANCES</u>	<u>(33,944)</u>	<u>183,515</u>
<u>CASH BALANCES - BEGINNING OF YEAR</u>	<u>526,970</u>	<u>343,455</u>
<u>CASH BALANCES - END OF YEAR</u>	<u>\$ 493,026</u>	<u>\$ 526,970</u>
<i>Cash Balances :</i>		
Cash	\$ 411,174	\$ 289,259
Cash-Conditional Grant Advance	-	155,900
Board Designated Reserves	<u>81,852</u>	<u>81,811</u>
Total Cash Balances	<u>\$ 493,026</u>	<u>\$ 526,970</u>

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

NOTE 1 ORGANIZATION

Generations Incorporated was incorporated in March 1994, under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code. Effective June 17, 2021, the Organization’s legal name was changed to Literations Corp. (the “Organization” or “Literations”). Literations is not classified as a private foundation under Section 509(a); accordingly, contributions made to this Organization qualify for the maximum charitable deduction for federal income tax purposes.

NOTE 2 PROGRAM SERVICES AND AFFILIATIONS

Literations’ mission is to drive educational equity through experienced community volunteers empowering young readers for lifelong learning. Literations is dedicated to improving the reading proficiency of young students in kindergarten through 3rd grade in under-resourced communities using a proven literacy model and trained older adult volunteer coaches.

The Organization affiliates with a national program called AARP Foundation Experience Corps, whose mission is to create powerful opportunities for older adults to meet society’s greatest challenge and a vision which focuses on older adults as integral parts of the education strategy of America.

The Organization’s primary program is therefore its AARP Foundation Experience Corps Program, or Literacy Program.

- Literations collaborates with teachers and schools to provide structured support to young students (K-3rd grade) who can benefit from 1:1 reading practice. Adult trained volunteers are matched with students for twice weekly sessions throughout the school year to read and practice under the supervision of a caring coach and mentor.
- During the 2020-2021 school year, this program was conducted through a virtual platform using Zoom. Students in eight Boston Public Schools continued to meet with their literacy coach twice weekly in virtual sessions during the school year.

Additionally, the Organization operates the following supplemental program:

- The *Active Aging Program* provides our AARP Foundation Experience Corps volunteers with meaningful activities, beyond their work with students, to enhance their physical, mental, and social well-being and connect them to the community.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which affect significant elements of the Organization’s financial statements are described below to enhance the usefulness of the financial statements to the reader. 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 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; however, adherence to generally accepted accounting principles has, in the management’s opinion, resulted in reliable and consistent financial reporting by the Organization.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 3 *(Continued)*

Basis of Accounting:

The Organization's policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when a liability has been incurred.

Financial Statement Presentation:

As required by the *FASB Accounting Standards Codification*TM, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. These classifications are related to the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - consists of assets, public support and program revenues which are available and used for operations and programs. Net assets without donor restrictions represents the portion of net assets of the Organization that are not restricted by donor-imposed stipulations. Contributions are considered available for use unless specifically restricted by the donor. In addition, net assets within this classification includes funds which represent resources designated by the Board of Directors for specific purposes.

Net Assets With Donor Restrictions - includes funds with donor-imposed restrictions which permit the donee organization to expend the assets as specified and is satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants or bequests and may include investment income earned on restricted funds. These net assets may also include resources which have a donor-imposed restriction which stipulates that a portion of the assets are to be maintained in perpetuity, but permits the Organization to expend part or all of the income derived from the donated assets.

Accounts Receivable, Program Services:

Accounts Receivable, Program Services represents amounts which are due from government funded program service contracts. These amounts are considered fully collectible; consequently, these financial statements do not contain a provision for uncollectible accounts receivable. Therefore, if accounts become uncollectible, a provision will be recorded at that time. For the years presented, there were no bad debts from program service revenues.

Gifts, Grants and Contributions Receivable:

Gifts, Grants and Contributions Receivable represent amounts due from individual and corporate donors as well as foundation grants which are classified as current if they are scheduled for payment within one year, and non-current when the expected payment date exceeds one year. Promises to give with expected payment dates that extend beyond one year are discounted to their present value when such amounts are considered material. Management believes that all such commitments are collectible, and therefore, no allowance for doubtful amounts has been established. If commitments from gifts and grants are determined to be uncollectible in subsequent periods, an allowance will be established at that time. For the years presented, there were no uncollectible gifts, grants or contributions.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 3 (Continued)

Property and Equipment:

Literations records all property and equipment at cost, if purchased (exceeding \$5,000), or if donated, at the fair value on the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Depreciation is computed using the straight-line method, and is charged against activities over the estimated useful lives of the assets, as expressed in terms of years.

As of June 30, 2020, *Property and Equipment* consisted primarily of fully depreciated computer equipment with an original aggregate cost of \$121,962. During FY 2021, as part of its relocation, the equipment was deemed obsolete, disposed of, and removed from the Organization's books. The disposal had no impact on the change in net assets for the year ended June 30, 2021.

Contributions, Gifts and Grants:

As required by the *FASB Accounting Standards Codification*TM, contributions are required to be recorded as receivables and revenues, and the Organization is required to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give. Occasionally, Literations receives donations of stocks which are recorded as contribution revenue at the fair value of the stock received.

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and right of return - are not recognized until the conditions on which they depend have been met. When the conditions are met, the corresponding support is reported as contributions with donor restrictions with the exception of conditional grants and contracts from government agencies, which are recognized as support without donor restrictions. Conditional grants which have been received and not yet recognized are recorded as a *Conditional Grant Advance* on the Statements of Financial Position.

Unconditional, multi-year commitments are recognized in the year during which the initial commitment was made. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved, when such amounts are considered material. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions until the restriction expires, at which time the assets are reclassified as net assets without donor restrictions.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 3 *(Continued)*

Revenue Recognition:

Cost-Reimbursement Agreements

A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants through AmeriCorps and the Office of Juvenile Justice and Delinquency Prevention ("OJJDP"), which are conditional upon certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. The Organization invoices AmeriCorps and OJJDP after such expenses have been incurred and does not receive payment in advance of service delivery; accordingly, there is no obligation for deferred revenue or conditional grant advances arising from these agreements in the accompanying financial statements. As of June 30, 2021 and 2020, the aggregate conditional remaining balance on these agreements amounted to \$106,659 and \$120,949, respectively.

Participation Fees

Literations receives participation fees for the delivery of literacy and tutoring programs which are recognized as services are delivered. When applicable, deposits received in advance are recognized as *Deferred Revenue*, a contract liability, in the accompanying Statements of Financial Position.

Donated Goods, Services and Facilities:

Literations maintains a policy to record certain in-kind transactions as required by the *FASB Accounting Standards Codification*TM. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received and are recognized as revenue and expense on the Statements of Activities and Statement of Functional Expenses.

Functional Expenses:

As required by the *FASB Accounting Standards Codification*TM, the Organization allocates its expenses on a functional basis among various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated using space and time usage formulas. In the accompanying Statements of Functional Expenses, *Salaries and Wages, Payroll Taxes, Fringe Benefits, Consultants and Professional Fees, Depreciation Expense, Occupancy, General and Professional Liability Insurance, Office Supplies and Expenses and Telephone and Communications* are allocated based on estimates of time and effort. Supporting services are those related to operating and managing the Organization and its programs on a day-to-day basis. Supporting services have been sub-classified as follows:

Administrative - includes all activities related to Literations' internal management and accounting for program services.

Fund Raising - includes all activities related to maintaining contributor information, writing grant proposals, direct mail solicitation, distribution of materials and other similar projects related to the procurement of funds.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 3 (Continued)

Recent Accounting Guidance:

Recently Implemented Standards

In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This updated guidance impacts not-for-profit entities that have revenue transactions other than contributions. In August 2015, the FASB deferred the effective date of ASC Update No. 2014-09 by one year when it issued ASC Update No. 2015-14, (Topic 606) *Revenue from Contracts with Customers*. This standard was adopted by the Organization effective July 1, 2020. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognized revenue, and therefore no changes in the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In June 2019, the FASB issued ASC Update No. 2018-08, (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU also provides additional guidance to help determine whether a contribution is conditional or unconditional. This standard was adopted by the Organization effective July 1, 2019. This ASU provides organizations with the option of applying the clarified guidance in the initial year of implementation on a prospective basis; therefore, the Organization has not restated its FY 2019 revenue balances or opening net assets for the years presented with respect to the implementation of this standard.

Recently Issued Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASC Update No. 2016-02, *Leases (Topic 842)*. This ASC update requires a lessee to recognize a right-of-use asset, which represents the lessee’s right to use a specified asset for the lease term, and a corresponding lease liability, which represents a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, for all leases that extend beyond 12 months. ASC Update No. 2016-02 requires that implementation of this guidance be through a modified retrospective transition approach. In July 2018, the FASB issued ASC Update No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities with an additional transition method to adopt ASC Update No. 2016-02. Under this optional transition method, an entity can initially apply the new guidance at the adoption date and recognize a cumulative-effect adjustment to the opening net asset balance in the period of adoption. In June 2020, the FASB deferred the effective date of this standard when it issued ASC Update No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. This standard is effective for this Organization in financial statements issued for fiscal years beginning January 1, 2022.

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 4 GIFTS, GRANTS AND CONTRIBUTIONS RECEIVABLE

The Organization has received various multi-year pledges to fund literacy programs. Included within *Gifts, Grants and Contributions Receivable* as of June 30, 2021 and 2020, Literations recorded unconditional promises to give due as follows:

	<u>2021</u>	<u>2020</u>
Receivable in Less Than One Year	\$50,000	\$224,780
Receivable in One to Five Years	<u>46,000</u>	<u>-</u>
Total Unconditional Promises to Give	<u>\$96,000</u>	<u>\$224,780</u>

NOTE 5 LINE-OF-CREDIT

The Organization has a \$50,000 working capital line-of-credit. As of June 30, 2021 and 2020, outstanding borrowings are subject to interest at the annual rate of 3.25%. The line-of-credit was not used in the years presented and carried a zero balance as of June 30, 2021 and 2020. The line-of-credit is secured by all business assets of the Organization and, unless renewed, expires on March 6, 2022.

NOTE 6 RESTRICTIONS AND DESIGNATIONS OF NET ASSETS

Board Designated Net Assets:

Board Designated Net Assets include net assets without donor restrictions designated by the Board of Directors to establish reserve funds more fully described in Note 14.

Net Assets With Donor Restrictions:

Net assets with donor restrictions consists of unexpended donor designated grants and contributions with the following restrictions as of June 30, 2021 and 2020:

<u>Nature of Restriction</u>	<u>2021</u>	<u>2020</u>
Literacy Program	\$ 69,000	\$115,000
Time Restricted	<u>100,000</u>	<u>230,000</u>
Total	<u>\$169,000</u>	<u>\$345,000</u>

Net assets released from restrictions by incurring expenses which satisfied the restricted purposes or by occurrence of events specified by the donors were as follows:

<u>Nature of Restriction</u>	<u>2021</u>	<u>2020</u>
Expiration of Time Restrictions	\$279,500	\$ 90,900
Literacy Program	165,000	83,948
Paycheck Protection Program Loan Release	155,900	50,000
Information Technology Upgrades	25,000	-
Active Aging Program	7,000	-
Cultural Responsiveness Workshops	1,500	7,000
Reading Coaches Program	<u>-</u>	<u>5,000</u>
Total	<u>\$633,900</u>	<u>\$236,848</u>

LITERATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 7 GOVERNMENT FUNDED PROGRAM SERVICE CONTRACTS

The Organization was the recipient of government funded service contracts for the years ended June 30, 2021 and 2020 as follows:

	<u>2021</u>	<u>2020</u>
<i>Federal Funding:</i>		
AmeriCorps National Direct	\$183,549	\$177,031
Office of Juvenile Justice and Delinquency Prevention	108,383	96,123
U.S. Department of Health and Human Services	<u>24,498</u>	<u>14,199</u>
Total Federal Funding	316,430	287,353
<i>State Funding:</i>		
Massachusetts Mentoring Partnership	<u>18,000</u>	<u>18,000</u>
Total Government Contracts	<u>\$334,430</u>	<u>\$305,353</u>

NOTE 8 CONDITIONAL GRANTS

Cummings Foundation:

In FY 2017, Literations received a \$50,000 sustaining grant from the Cummings Foundation (the "Foundation") which provides for up to nine annual renewals, conditional upon the sole discretion of the Foundation. During FY 2020 and FY 2021, Literations had received its third and fourth year of funding, with five remaining annual installments available under the grant as of June 30, 2021.

The Organization has a long standing relationship with the Cummings Foundation and feels confident that they will continue to meet the conditions of this multi-year grant. The total conditional amount of this 10-year sustaining grant is \$500,000. As of June 30, 2021, the Organization had received a total of \$250,000 in annual installments of \$50,000.

As of June 30, 2021 and 2020, the aggregate conditional amount of the following Cummings commitments was \$250,000 and \$300,000, respectively. As the terms of the conditions had not been met, the support has not been recognized in the accompanying financial statements. Refer to Note 13 for information pertaining to Literations' Paycheck Protection Program Loan.

NOTE 9 DONATED GOODS, SERVICES AND FACILITIES

The following donated goods, services and facilities have been recognized as revenues with offsetting expenses in the accompanying financial statements:

	<u>2021</u>	<u>2020</u>
Experience Corps Volunteers	\$140,050	\$194,301
Materials and Supplies	-	3,011
Pro Bono Legal Fees	5,716	-
Rent - Volunteer Site Locations	-	<u>173,215</u>
Total In-Kind Donations	<u>\$145,766</u>	<u>\$370,527</u>

In-kind donations of volunteer time have been valued at \$13 per hour for the years ended June 30, 2021 and 2020, which management considers to be a very conservative estimate.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 9 *(Continued)*

Due to the COVID-19 pandemic, volunteers were unable to be in person at their program locations for three and a half months of fiscal year 2020 and throughout the entirety of fiscal year 2021. This resulted in fewer total hours served by volunteers and a smaller donation of space from partner sites. Given the virtual program being offered in the 2020-2021 school year, the Organization anticipated and saw another decrease in overall in-kind donations for fiscal year 2021.

NOTE 10 EMPLOYEE BENEFIT PLAN

The Organization maintains a retirement plan qualified under Section 403(b) of the Internal Revenue Code. No employer contributions were made for the years ended June 30, 2021 and 2020. All employees are eligible as long as they are employed by the Organization when the contribution is made.

NOTE 11 OPERATING LEASE COMMITMENTS

Office Space:

The Organization leased office facilities located in Boston, Massachusetts pursuant to a lease that expired on June 30, 2021. Additional rent is assessed to cover the Organization's share of increases in real estate taxes. Rent is adjusted annually based on increases in the Consumer Price Index ("CPI"), as defined. During FY 2021 and FY 2020, the Organization paid rent totaling \$132,097 and \$118,221, respectively. Utilities, insurance and maintenance expenses are paid directly by the Organization. The lease expired on June 30, 2021 and was not renewed.

In May 2021 the Organization executed a lease agreement for a new office space in Boston. The lease term commences September 1, 2021 and runs through June 29, 2024. Under the terms of the lease, base rent is \$42,000 per year. Future minimum lease payments are as follows:

<u>Fiscal Year Ended</u>	<u>Amount</u>
June 30, 2022	\$ 35,000
June 30, 2023	42,000
June 29, 2024	<u>42,000</u>
Total	<u>\$119,000</u>

Sublease Agreements:

The Organization entered into a sublease agreement with a nonprofit organization which commenced January 1, 2020 and required monthly payments of \$3,100 through June 30, 2020. Monthly rent payments increased to \$3,500 through June 30, 2021, coinciding with the expiration of the lease. Additional rent of \$250 was collected to cover internet and phone expenses. A security deposit of \$3,100 was required. The Organization collected rental income of \$45,000 and \$25,450 for the years ended June 30, 2021 and 2020, respectively. The tenant vacated the space in June 2021.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 12 CONCENTRATIONS

Cash Balances:

Literations maintains its cash balances at one financial institution, which are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. As of June 30, 2021 and 2020, the Organization had deposits of \$251,443 and \$271,371 in excess of the \$250,000 limit, respectively. Although at times the balance in these accounts may exceed the federally insured limit, the Organization has never experienced any losses on uninsured cash balances and Management considers credit risk on cash to be low.

Gifts, Grants and Contributions Receivable:

Approximately 56% and 61% of *Gifts, Grants and Contributions Receivable* represent balances due from two donors and four donors as of June 30, 2021 and 2020, respectively.

NOTE 13 CONTINGENCIES

Paycheck Protection Program Loan:

The Organization received a loan in the amount of \$205,900 from First Republic Bank through the Paycheck Protection Program established by the U.S. CARES Act (the “PPP Loan”) on April 20, 2020. The Organization has elected to account for the expected forgivable portion of this loan as a conditional grant commitment as permitted by the AICPA, and intends to apply for and receive full forgiveness of the loan, while any remaining balance would be repayable over a five-year term and subject to interest at the annual rate of 1%. The amount forgiven equals the amount incurred on qualifying costs (payroll, mortgage interest, rent utilities, as defined and subject to limitations) during the covered period. The amount forgiven is reduced if a) the Organization decreases its staffing levels during the covered period, or b) reduces salaries/wages during the covered period; however, those reductions are subject to certain exemptions. Literations elected to use a 24-week covered period which expired on October 5, 2020. As of June 30, 2020, Literations had incurred \$50,000 of qualifying costs which were recognized as grant income for the fiscal year then ended. The remaining funds totaling \$155,900 were recorded as *Conditional Grant Advance* as of June 30, 2020 and were recognized as grant income for the year ended June 30, 2021. The Organization applied for and received forgiveness in full of the PPP Loan in January 2021.

Impact of COVID-19 Pandemic:

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of many organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. The related financial impact on the Organization and duration of the pandemic cannot be reasonably estimated at this time.

The Organization's in-person programming was suspended in March 2020 and all staff began working remotely. The focus of the final quarter of fiscal year 2020 was to continue to support the volunteers and students while ensuring the long-term financial health of the Organization.

The staff made an early decision to transition all in-person tutoring to a virtual platform for the Fall of 2020. This early decision allowed the staff to focus on setting up a virtual platform that would effectively support the partners no matter what schools looked like in September 2020. The 2020-2021 program was administered entirely on a virtual platform with no in person tutoring.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 13 *(Continued)*

The staff of Literations have successfully been working remotely since March 2020. This has allowed the Organization to downsize office space in July 2021, significantly decreasing facilities expenses in future years. Throughout the pandemic, management and the Board of Directors have continued to make conservative financial decisions to ensure Literations remains financially healthy, continuing to operate programs and serving the community.

NOTE 14 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Organization's financial assets as of June 30, 2021 and 2020, reduced by amounts which are not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year of the Statements of Financial Position date or when restricted by donors or the Board of Directors for purposes more limited than general expenditures.

	<u>2021</u>	<u>2020</u>
Financial Assets:		
Cash	\$411,174	\$289,259
Cash - Conditional Grant Advance	-	155,900
Accounts Receivable, Program Services	67,766	82,461
Gifts, Grants and Contributions Receivable	104,009	241,919
Board Designated Reserves	<u>81,852</u>	<u>81,811</u>
Total Financial Assets as of June 30	664,801	851,350
Less Amounts Not Available to be Used Within One Year:		
Board Designated Reserves	(81,852)	(81,811)
Grants Receivable After One Year	<u>(46,000)</u>	<u>-</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$536,949</u>	<u>\$769,539</u>

For the purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Organization considers all expenditures related to their ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Literations currently has a \$50,000 line-of-credit that can be drawn down to meet cash flow needs (See Note 5). This line-of-credit is for one-time uses to cover delayed receivables and is not used consistently.

The Organization manages its liquid assets with three main objectives – operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Financial staff forecast cash flow on a daily basis and accurately report on cash projections to the Board of Directors monthly.

The target minimum for the total of the operating reserve and the board designated fund is equal to three months of average operating costs; approximately \$380,000. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(Continued)

NOTE 14 *(Continued)*

As of June 30, 2021 and 2020, the Organization had \$81,852 and \$81,811, respectively, in a board designated reserve account. The current strategic goal is to raise \$170,000 through a five-year plan, which would build the reserve funds to 67% towards the overall goal. Strategies have been laid out and budgeted for raising this additional revenue.

Currently, the Organization does not have an operating or working capital reserve. Funds raised through the strategic plan will be distributed between the two reserve fund accounts as decided by the Board of Directors. The finance committee will urge the members to focus on building back the operating reserves first.

NOTE 15 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through November 8, 2021, the date which the financial statements were available for issue, and noted no events which met the recognition criteria.