

**Literacy Council of Buncombe County**

Audited Financial Statements

For the Years Ended  
June 30, 2020 and 2019

**Literacy Council of Buncombe County**  
Asheville, North Carolina

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Literacy Council of Buncombe County

We have audited the accompanying financial statements of Literacy Council of Buncombe County (a nonprofit organization) which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional activities, 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 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 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 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 Literacy Council of Buncombe County as of June 30, 2020 and 2019, 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.

*Goldsmith Molis & Gray, PLLC*

Goldsmith Molis & Gray, PLLC  
Asheville, North Carolina  
August 27, 2020

# Literacy Council of Buncombe County

## Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b><u>Assets</u></b>		
Current assets:		
Cash - unrestricted	\$ 200,658	\$ 107,871
Cash - restricted	18,000	10,500
Sales tax receivable	412	831
Prepaid expenses	<u>3,000</u>	<u>2,686</u>
Total current assets	<u>222,070</u>	<u>121,888</u>
Other assets:		
Property and equipment, net	<u>1,323</u>	<u>1,772</u>
Total assets	<u>\$ 223,393</u>	<u>\$ 123,660</u>
 <b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 479	\$ 564
Long-term debt, net of current portion	19,210	-
Deferred revenue	<u>-</u>	<u>10,500</u>
Total current liabilities	<u>19,689</u>	<u>11,064</u>
Long-term debt, less current portion	<u>21,765</u>	<u>-</u>
Total liabilities	<u>41,454</u>	<u>11,064</u>
Net assets:		
Without donor restrictions	163,939	112,596
With donor restrictions	<u>18,000</u>	<u>-</u>
Total net assets	<u>181,939</u>	<u>112,596</u>
Total liabilities and net assets	<u>\$ 223,393</u>	<u>\$ 123,660</u>

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

**Literacy Council of Buncombe County**  
Statements of Activities  
For the Years Ended June 30, 2020 and 2019

	2020		2019	
	Without	With	Without	With
	Donor Restrictions	Donor Restrictions	Donor Restrictions	Donor Restrictions
	Total	Total	Total	Total
Public support and revenues:				
Contributions	\$ 93,587	\$ 37,845	\$ 67,834	\$ 36,628
Grants	28,978	164,840	-	175,941
Special events	51,657	-	108,043	-
Other income and fees	1,550	-	2,075	-
Interest income	1,505	-	548	-
Contributed services	372,558	-	407,793	-
Net assets released from restrictions	184,685	(184,685)	212,569	(212,569)
Total public support and revenues	<u>734,520</u>	<u>18,000</u>	<u>798,862</u>	<u>-</u>
Expenses:				
Program activities	589,621	-	658,261	-
Supporting services:				
General and administrative	54,066	-	57,315	-
Fundraising	39,490	-	38,959	-
Total supporting services	<u>93,556</u>	<u>-</u>	<u>96,274</u>	<u>-</u>
Total expenses	<u>683,177</u>	<u>-</u>	<u>754,535</u>	<u>-</u>
Change in net assets	51,343	18,000	44,327	-
Net assets, beginning of year	112,596	-	68,269	-
Net assets, end of year	<u>\$ 163,939</u>	<u>\$ 18,000</u>	<u>\$ 112,596</u>	<u>\$ 112,596</u>

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

# Literacy Council of Buncombe County

## Statements of Functional Expenses

For the Years Ended June 30, 2020 and 2019

	2020				2019			
	General &			Totals	General &			Totals
	Program	Administrative	Fundraising		Program	Administrative	Fundraising	
Salaries	\$ 132,086	\$ 36,813	\$ 30,977	\$ 199,876	\$ 135,574	\$ 40,831	\$ 32,557	\$ 208,962
Contributed services	372,558	-	-	372,558	407,793	-	-	407,793
Rent	31,320	1,740	1,740	34,800	31,320	1,740	1,740	34,800
Payroll taxes	10,104	2,907	2,369	15,380	10,371	3,218	2,489	16,078
Program expenses	10,398	-	176	10,574	20,387	-	247	20,634
Contract labor	9,890	-	-	9,890	6,050	-	-	6,050
Professional fees	2,145	6,433	-	8,578	1,947	5,842	-	7,789
Materials	8,367	-	-	8,367	26,880	-	-	26,880
Printing	4,361	1,357	1,023	6,741	3,621	202	201	4,024
Telephone and internet	2,881	160	160	3,201	2,831	158	157	3,146
Insurance	2,168	120	121	2,409	1,810	100	101	2,011
Information technology	701	-	1,631	2,332	240	-	556	796
Payroll service	-	1,341	-	1,341	-	1,517	-	1,517
Credit card fees	-	1,330	-	1,330	-	2,259	-	2,259
Postage	120	220	882	1,222	657	131	525	1,313
Miscellaneous	558	162	411	1,131	1,087	140	255	1,482
Professional development	1,001	-	-	1,001	3,430	110	131	3,671
Supplies	144	769	-	913	1,503	-	-	1,503
Dues and subscriptions	419	265	-	684	959	98	-	1,057
Depreciation	-	449	-	449	-	509	-	509
Travel	400	-	-	400	1,801	460	-	2,261
Totals	\$ 589,621	\$ 54,066	\$ 39,490	\$ 683,177	\$ 658,261	\$ 57,315	\$ 38,959	\$ 754,535

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

# Literacy Council of Buncombe County

## Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 69,343	\$ 44,327
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	449	509
Change in operating assets and liabilities:		
Sales tax receivable	419	(393)
Prepaid expenses	(314)	(2,686)
Accounts payable and accrued expenses	(85)	564
Deferred revenue	(10,500)	(24,500)
Net cash provided by operating activities	<u>59,312</u>	<u>17,821</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(1,650)
Net cash used in investing activities	<u>-</u>	<u>(1,650)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	40,975	-
Net cash provided by financing activities	<u>40,975</u>	<u>-</u>
Net change in cash and restricted cash	100,287	16,171
Cash and restricted cash, beginning of year	<u>118,371</u>	<u>102,200</u>
Cash and restricted cash, end of year	<u>\$ 218,658</u>	<u>\$ 118,371</u>

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



# **Literacy Council of Buncombe County**

Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

## **Note 1 – Summary of Significant Accounting Policies**

### **General**

The Literacy Council of Buncombe County (the “Council”) is a private, non-profit corporation established in 1987 after a merger between the Altrusa Literacy Council and the Asheville-Buncombe Literacy Council. The Council is dedicated to increasing comprehensive literacy and English language skills through specialized instruction by trained tutors and access to literacy resources.

### **Basis of Presentation**

The financial statements of the Council have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which require the Council 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 Council. These net assets may be used at the discretion of the Council’s management and the 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 actions of the Council or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

### **Measure of Operations**

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Council’s ongoing services and interest and dividends earned on investments. Non-operating activities are limited to resources and other activities considered to be of a more unusual or nonrecurring nature.

### **Promises to Give**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Conditional promises to give are not include as support until the conditions are met. There were no unconditional promises to give at June 30, 2020 and 2019.

# **Literacy Council of Buncombe County**

Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

## **Note 1 - Summary of Significant Accounting Policies - continued**

### Use of Estimates

Preparation of financial statements in accordance with U.S. GAAP requires the Council's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Fair Value of Financial Instruments

The Council discloses for each class of financial instruments the methods, and when a valuation technique is used, the significant assumptions applied in determining the fair values of financial assets and liabilities. If there is a change in the valuation technique, then the Council discloses both the change and the reasons for the change.

The Council estimates that the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position. The estimated fair value amounts have been determined by the Council using available market information and appropriate valuation methodologies. The Council's financial instruments consist primarily of cash, receivables, prepaid expenses, accounts payable and accrued expenses and deferred revenue.

### Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Council includes all cash investments which are not subject to withdrawal restrictions or penalties and certificates of deposit with maturity of three months or less as cash and cash equivalents. The Council did not have any cash equivalents at June 30, 2020 and 2019.

The Council maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). The coverage is \$250,000 for substantially all other depository accounts. Deposit accounts, at times, may exceed federally insured limits, but the Council has not experienced any such losses.

### Property and Equipment

Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from five to seven years. The Council's policy is to capitalize property and equipment acquired for greater than \$500 and expense normal repairs and maintenance as incurred. The Council's management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

# Literacy Council of Buncombe County

Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

## **Note 1 - Summary of Significant Accounting Policies – continued**

### Contributions

Contributions received 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. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. 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.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

### Donated Services

A substantial number of volunteers have donated a significant amount of time to the Council's program services. Contributed services that create or enhance nonfinancial assets or require specialized skills and are provided by individuals possessing those skills are recognized as support. Contributed services of \$372,558 and \$407,793 (management's estimate of the fair value) have been reflected in the accompanying financial statements as in-kind contributions for services contributed by skilled tutors at the Council for the years ended June 30, 2020 and 2019, respectively.

### Income Taxes

The Council is established as a not-for-profit entity and has been recognized as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

FASB ASC 740, "Accounting for Uncertainty in Income Taxes" clarified the accounting for the recognition and measurement of uncertainties in income taxes recognized in an entity's financial statements and prescribes a threshold of more likely-than-not for recognition of tax positions taken or expected to be taken in a tax return. The Council's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence.

The Council's income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of June 30, 2020, years subject to examination include the fiscal years ended 2017, 2018, and 2019.

# Literacy Council of Buncombe County

Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

## **Note 1 - Summary of Significant Accounting Policies – continued**

### Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis and, accordingly, certain expenses have been allocated among the program and supporting services benefitted. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and payroll taxes	Time and effort
Rent	Square footage
Program expenses	Time and effort
Professional fees	Full time equivalent
Printing	Time and effort
Telephone and internet	Time and effort
Insurance	Time and effort
Information technology	Time and effort
Postage	Time and effort
Miscellaneous	Time and effort
Supplies	Time and effort
Dues and subscriptions	Time and effort

### New Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Council has adjusted the presentation of these statements accordingly. This ASU was implemented during the year ended June 30, 2019.

In November 2016, FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – *Restricted Cash*. The update requires that restricted cash and cash equivalents be included in the total cash and cash equivalents at the beginning and end of the period for which changes are shown in the statement of cash flows. The ASU clarifies that transfers between cash and cash equivalents and restricted cash are not part of an entity’s operating, investing, and financing activities and should not be reported as cash flow activities in the statement of cash flows. The Council has adjusted the presentation of the statements of cash flows accordingly. This ASU was implemented during the year ended June 30, 2019.

## Literacy Council of Buncombe County

Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

### **Note 1 - Summary of Significant Accounting Policies – continued**

#### *Revenue and Revenue Recognition*

The Council has adopted Accounting Standards Update (ASU) No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, as management believes the standards improve the usefulness and understandability of the Council's financial reporting.

The Council 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 a right of return - are not recognized until the conditions on which they depend have been met.

A portion of the Council's revenue is derived from cost-reimbursable state and private grants, which are conditioned upon the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Council has incurred expenditures in compliance with grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

For special events, funds received in advance are recognized as deferred revenue until the event takes place, at which time they are recognized as revenue.

Analysis of various provisions of these standards resulted in no significant changes in the way the Council recognizes revenue, and therefore no changes to 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 standards.

#### *Leases*

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 is intended to improve the financial reporting about leasing transactions. The ASU will require entities that lease assets to recognize assets and liabilities on the balance sheet for the rights and obligations created by those leases. The standard will be effective for annual periods beginning after December 15, 2021. Early adoption is permitted. The Council is in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

## Literacy Council of Buncombe County

Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

### Note 2 – Availability and Liquidity

The following represents the Council's financial assets at June 30, 2020:

Financial assets at year-end:	
Cash	\$ 218,658
Sales tax receivable	412
Total financial assets	<u>219,070</u>

Less amounts not available to be used within one year:	
Board designated for capital projects	\$ -
Less net assets with purpose restrictions to be met in less than one year	<u>18,000</u>
	<u>18,000</u>

Financial assets available to meet general expenditures over the next twelve months	<u>\$ 201,070</u>
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The following represents the Council's financial assets at June 30, 2019:

Financial assets at year-end:	
Cash	\$ 118,371
Sales tax receivable	831
Total financial assets	<u>119,202</u>

Less amounts not available to be used within one year:	
Board designated for capital projects	\$ -
Less net assets with purpose restrictions to be met in less than one year	<u>-</u>
	<u>-</u>

Financial assets available to meet general expenditures over the next twelve months	<u>\$ 119,202</u>
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The Council's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments including money market accounts.

## Literacy Council of Buncombe County

Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

### **Note 3 - Cash and Restricted Cash**

Cash and restricted cash consists of the following:

<u>June 30:</u>	<u>2020</u>	<u>2019</u>
Cash- unrestricted	\$ 200,658	\$ 107,871
Cash- restricted	<u>18,000</u>	<u>10,500</u>
Cash and restricted cash shown in the consolidated statement of cash flows	<u>\$ 218,658</u>	<u>\$ 118,371</u>

Restricted cash represents cash received with a donor-imposed restriction that limits the use of those funds for expenses incurred for a specific program.

### **Note 4 – Property and Equipment**

A description of property and equipment is as follows:

<u>June 30:</u>	<u>2020</u>	<u>2019</u>
Computers	\$ 5,191	\$ 5,191
Less: accumulated depreciation	<u>(3,868)</u>	<u>(3,419)</u>
Property and equipment, net	<u>\$ 1,323</u>	<u>\$ 1,772</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$449 and \$509, respectively.

### **Note 5 – Beneficially Owned Funds**

The Council is the beneficial owner, but not the legal owner, of certain donated funds held and controlled by the Community Foundation of Western North Carolina (the "Foundation"). These funds are not reflected in the accompanying statement of financial position. The Council retains certain percentages of beneficial interests in the component fund of the Foundation. The total market value of these funds at June 30, 2020 and 2019 totaled \$106,443 and \$102,253, respectively.

### **Note 6 – Deferred Revenue**

The Council received grants during the year of which the donor-imposed conditions were not met before year end. Grant funds totaling \$0 and \$10,500 were recorded as deferred revenue for the years ended June 30, 2020 and June 30, 2019, respectively.

## **Literacy Council of Buncombe County**

Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

### **Note 7 – Long-term Debt**

On April 18, 2020, the Council was granted a Paycheck Protection Program (“PPP”) under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act which was enacted March 27, 2020 in the amount of \$40,975. The PPP loan is payable over two years at an interest rate of 1%, with a deferral of monthly payments for the first seven months. All unpaid principal and interest payments are due in full in April 2022. As of June 30, 2020, the balance outstanding on the loan was \$40,975.

Future minimum payments as of June 30, 2020 are as follows:

2021	\$ 19,210
2022	<u>21,765</u>
	<u>\$ 40,975</u>

### **Note 8 – Lease Commitments**

In July 2019, the Council entered into a lease for office space in Asheville, North Carolina. The three-year lease agreement calls for monthly payments of \$2,900 in year one, \$3,100 in year two, and \$3,300 in year three. The lease expires on July 31, 2022. Total rent expense was \$34,800 and \$34,800 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments are as follows:

<u>For the Year Ending June 30:</u>	
2021	\$ 37,000
2022	39,400
2023	<u>3,300</u>
Total future payments	<u>\$ 79,700</u>

### **Note 9 – Net Assets**

Net assets with donor restrictions relating to the satisfaction of purpose restrictions totaled \$18,000 and \$0 during the years ended June 30, 2020 and 2019, respectively. Net assets without donor restrictions totaled \$163,939 and \$112,596 for the years ended June 30, 2020 and 2019, respectively.

Net assets released from net assets with donor restrictions associated with the satisfaction of purpose restrictions for program activities totaled \$184,685 and \$212,569, during the years ended June 30, 2020 and 2019, respectively.

### **Note 10 – Concentration of Credit Risk**

Three agencies provided grant revenue totaling \$142,315 or 61% of total grant revenues during the year ended June 30, 2020. Two agencies provided grant revenue totaling \$148,463 or 84% of total grant revenues during the year ended June 30, 2019.



## **Literacy Council of Buncombe County**

Notes to the Financial Statements  
For the Years Ended June 30, 2020 and 2019

### **Note 11 – Related Party Transactions**

During the years ended June 30, 2020 and 2019, management and members of the Board of Directors made contributions to the Organization totaling \$2,305 and \$2,120, respectively.

### **Note 12 – Subsequent Events**

The Council evaluated the effect that all subsequent events would have on the financial statements through August 27, 2020, which is the date the financial statements were available to be issued.