THE LITERACY CENTER
(A Not-for-Profit Corporation)

Financial Statements and
Independent Auditor's Report

June 30, 2018

CAMPBELL, RAPPOLD & YURASITS LLP
Certified Public Accountants
1033 South Cedar Crest Boulevard Allentown, PA 18103

THE LITERACY CENTER
(A Not-for-Profit Corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Literacy Center
Allentown, PA

We have audited the accompanying financial statements of The Literacy Center (A Not-for-Profit Corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Literacy Center as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Literacy Center's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Campbell, Peppold & Ywasita LLP

May 14, 2019

THE LITERACY CENTER
(A Not-for-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION

	June 30, 2018	June 30, 2017
Assets		
Cash and Cash Equivalents	$ 240,544	$ 214,602
Investments (Notes 3 and 4)	178,141	162,143
Grants and Other Receivables (Note 5)	19,241	4,917
Prepaid Expenses	15,758	10,810
Equipment and Leasehold Improvements, Net (Note 6)	66,585	54,777
Total Assets	$ 520,269	$ 447,249
Liabilities and Net Assets		
Liabilities		
Accounts Payable and Accrued Expenses	$ 28,531	$ 44,537
Deferred Revenue	-	960
Lease Payable	7,307	5,384
Total Liabilities	35,838	50,881
Net Assets		
Without Donor Restrictions:		
Undesignated	478,772	383,668
Board Designated for Scholarships	3,000	-
With Donor Restrictions:		
Purpose Restrictions (Note 8)	2,659	12,700
Total Net Assets	484,431	396,368
Total Liabilities and Net Assets	$ 520,269	$ 447,249

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

THE LITERACY CENTER
(A Not-for-Profit Corporation)
STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains, and Other Support						
Grants and Community Contributions	$ 408,570	$ -	$ 408,570	$ 372,078	$ -	$ 372,078
Contributed Services and Other In-Kinds (Note 1)	97,496	-	97,496	92,580	-	92,580
Governmental Grants	455,484	-	455,484	421,686	-	421,686
Service Revenue and Other	1,010	-	1,010	1,127	-	1,127
Special Events	12,605	-	12,605	23,573	-	23,573
Satisfaction of Restrictions	-	-	-	-	-	-
Total Revenues, Gains, and Other Support	975,165	-	975,165	911,044	-	911,044
Operating Expenses						
Program	753,920	-	753,920	708,226	-	708,226
Management and General	89,212	-	89,212	95,226	-	95,226
Fundraising	50,227	-	50,227	62,811	-	62,811
Total Expenses	893,359	-	893,359	866,263	-	866,263
Change in Net Assets from Operations	81,806	-	81,806	44,781	-	44,781
Other Changes in Net Assets						
Net Assets Released from Restrictions for Fixed Asset Purchases	10,041	(10,041)	-	-	-	-
Contributions Restricted for Fixed Asset Purchases	-	-	-	-	12,700	12,700
Investment Income	4,365	-	4,365	4,979	-	4,979
Net Realized/Unrealized Gain on Investments	1,892	-	1,892	2,784	-	2,784
Loss on Disposal of Fixed Assets	-	-	-	(8,342)	-	(8,342)
Total Other Changes	16,298	(10,041)	6,257	(579)	12,700	12,121
Increase (Decrease) in Net Assets	98,104	(10,041)	88,063	44,202	12,700	56,902
Net Assets at Beginning of Year	383,668	12,700	396,368	339,466	-	339,466
Net Assets at End of Year	$ 481,772	$ 2,659	$ 484,431	$ 383,668	$ 12,700	$ 396,368

See independent auditorõs report and notes to financial statements.

THE LITERACY CENTER
(A Not-for-Profit Corporation)
STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2018	Year Ended June 30, 2017
Cash Flows from Operating Activities		
Increase in Net Assets	$ 88,063	$ 56,902
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	14,978	15,395
Net Realized/Unrealized Gains/Losses on Investments	(1,892)	(2,784)
Loss on Disposal of Equipment and Leasehold Improvements	-	8,342
Contributions Restricted for Fixed Asset Purchases	-	(12,700)
(Increase) Decrease in Assets:		
Accounts Receivable	(14,324)	18,840
Inventory	-	3,366
Prepaid Expenses	(4,948)	4,365
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(16,006)	4,558
Deferred Revenue	(960)	-
Lease Payable	1,923	4,413
Net Cash Provided by Operating Activities	66,834	100,697
Cash Flows from Investing Activities		
Purchase of Investments	(14,106)	(4,979)
Purchase of Equipment and Leasehold Improvements	(26,786)	(16,057)
Net Cash Used by Investing Activities	(40,892)	(21,036)
Cash Flow from Financing Activities		
Contributions Restricted for Fixed Asset Purchases	-	12,700
Net Cash Provided by Financing Activities	-	12,700
Net Increase in Cash and Cash Equivalents	25,942	92,361
Cash and Cash Equivalents - Beginning of Year	214,602	122,241
Cash and Cash Equivalents - End of Year	$ 240,544	$ 214,602

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

THE LITERACY CENTER
(A Not-for-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018
With Comparative Totals for 2017

	Program Services	Management and General	Fund Raising	Year Ended June 30, 2018	Year Ended June 30, 2017
Salaries	$ 379,459	$ 56,919	$ 37,946	$ 474,324	$ 523,171
Employee Health Benefits	28,770	4,316	2,877	35,963	32,291
Payroll Taxes	40,029	6,004	4,003	50,036	54,510
Total Salaries and Related Expenses	448,258	67,239	44,826	560,323	609,972
Professional Fees	64,686	7,187	-	71,873	12,775
Office Supplies	2,427	607	-	3,034	6,073
Instructional Material	12,538	-	-	12,538	13,165
Telephone and Internet	2,493	293	147	2,933	3,194
Postage	866	124	247	1,237	1,225
Printing and Advertising	2,937	367	367	3,671	2,281
Travel	1,981	248	248	2,477	-
Conference and Meetings	5,510	-	-	5,510	2,044
Equipment Maintenance	4,137	460	-	4,597	3,178
Small Equipment	-	-	-	-	393
Occupancy	82,310	9,145	-	91,455	76,785
Insurance	9,550	1,061	-	10,611	10,192
Dues	1,192	132	-	1,324	752
Public Relations	-	-	-	-	299
Program Expenses	1,293	144	-	1,437	1,125
Board Functions	550	61	-	611	788
Bank Fees	1,497	166	-	1,663	857
Miscellaneous Expenses	719	480	-	1,199	261
Special Events	-	-	4,392	4,392	6,002
Special Events In-Kind Expense	-	-	-	-	6,927
In-Kind Equipment and Materials	539	-	-	539	2,099
Use of Contributed Services and Facilities (Note 1)	96,957	-	-	96,957	90,481
Total Expenses Before Depreciation	740,440	87,714	50,227	878,381	850,868
Depreciation	13,480	1,498	-	14,978	15,395
Total Expenses	$ 753,920	$ 89,212	$ 50,227	$ 893,359	$ 866,263

See independent auditorõs report and notes to financial statements.

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Literacy Center (TLC), guided by the mission: Education for Work, Family and Life, is a leader in community-based adult literacy education which is built on accessible, innovative, cost-effective instructional services. Pre-GED, Graduate Equivalency Diploma (GED), English as a Second Language (ESL), Career, and Family Literacy are core services, supplemented by instruction in computer basics, health wellness, nutrition and financial literacy. All instruction is offered at TLC's main offices in center city Allentown. A group tutoring model and one on one tutoring model is provided to support student outcomes and academic achievement. Services are provided to students regardless of their ability to pay.

Established in 1977 The Literacy Center (TLC) continues to serve a growing adult student population in the Lehigh Valley who are seeking English language proficiency and/or the high school equivalency diploma.

During the 2018 academic year, seventy-five percent of adult student enrollment was directed toward ESL (English as a Second Language) and ESL/Civics instruction for students seeking to obtain American citizenship. Twenty-five percent of enrollment was focused on students seeking their Pennsylvania high school equivalency (GED) certificate.

During this academic year, TLC continued to revamp all curricula to develop a greater focus on workforce initiatives that help to prepare students for post-secondary education, technical/trade school training and sustainable employment. To continue to address the Allentown School District and Lehigh County's rising concerns about students who drop out before attaining a high school diploma, TLC's new track of GED instruction - Say YES (Young Empowered Student) to Your Future has experienced increased enrollment. What differentiates this program from traditional GED instruction is that it is especially designed for students who recently dropped out of high school, have not earned enough credits to traditionally graduate high school and are 17-24 years of age. Enrollment, pretesting, web-based applications and greater use of technology in instruction make every attempt to eliminate as many barriers to achievement as possible.

TLC has been recognized by the Pennsylvania Department of Education (PDE) for Educational Functional Level (EFL) documented student gains that consistently exceed the Commonwealth's and National Results System (NRS) benchmark standards. TLC exceeded all PDE standards of student outcome measurement.

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting with the principles of not-for-profit accounting.

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of TLC are classified and reported as follows:

Net Assets Without Donor Restrictions ï Net assets available for use in general operations and not subject to donor or certain grantor restrictions. Net assets without donor restrictions may be designated for specific purposes by the action of the Board of Directors.

Net Assets With Donor Restrictions ï Net assets subject to donor-imposed restrictions. Donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for whiche the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, TLC considers cash held in savings accounts and separately held money market funds to be cash equivalents.

Accounts Receivable

Accounts receivable represents grants due from counties, states, and various sources. All accounts receivable are deemed collectible and no allowance has been provided.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restriction if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation is computed by use of the straight-line method based on estimated useful lives. Donated fixed assets are stated at fair value and depreciated by use of the straight-line method based on estimated useful lives. Assets with costs under $500 are not capitalized.

	Years
Equipment	3 - 10
Furniture and Fixtures	5 - 10
Leasehold Improvements	10

Operating Measure

TLC includes all changes in Net Assets Without Donor Restrictions in its ñoperating incomeò on the Statement of Activities except:

Contributions Restricted for Fixed Asset Purchases
Investment Income
Net Realized/Unrealized Gain (Loss) on Investments
Gain (Loss) on Disposal of Fixed Assets

Contributions

TLC reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 Statement of Activities as net assets released from restrictions.

TLC reports gifts of land, buildings, and equipment as support without donor restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, TLC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

All contributions, legacies and bequests are considered to be available for use unless specifically restricted by the donor.

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Income Taxes

TLC is a non-profit organization exempt from income taxes under section 501(c)(3), of the internal revenue code.

The accounting standard for uncertainty in income taxes addresses the determination of whether tax benefits claims or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, TLC may recognize the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of TLC and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits or liabilities recorded for the fiscal years 2018 and 2017.

TLC files its 990 with the United States Internal Revenue Service and Form BCO-10 with the Bureau of Charitable Organizations in Pennsylvania.

Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. Donated services for volunteer tutor hours have been valued at $23.07 per hour. No amounts have been reflected in the statements for other services donated inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in TLC's program services and in its fund-raising campaigns.

Estimates and Assumptions

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

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Allocation of Expenses by Function

As reported in the Statement of Functional Expenses, expenses of TLC have been allocated to the following functional reporting classifications:

Program Services
Management and General
Fundraising

TLC's method for allocating expenses among the functional reporting classifications, which cannot be specifically identified as program or supporting service are based on estimates made for time spent by key personnel between functions, spaced occupied by function, consumption, and other objective bases.

Advertising Costs

Costs incurred for producing and communicating advertising are expensed when incurred.

Recently Adopted Accounting Guidance

In August 2016, the FASB issued Accounting Standards Update 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, regarding the reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017. The pronouncement replaces the three classes of net assets with two new classes, requires the reporting of expenses by function and natural classification, enhances disclosures on liquidity and availability of resources, and includes several other less significant reporting enhancements. TLC elected early adoption of the provisions of ASU 2016-14 effective fiscal year ended June 30, 2018 and it has been applied retrospectively to the year ending June 30, 2017.

Reclassifications

Certain 2017 amounts have been reclassified in order to conform to the 2018 financial statement presentation. These reclassifications have no effect on the changes in net assets as previously reported.

2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and Cash Equivalents	
Without Donor Restrictions	$ 237,885
Investments	178,141
Grants and Other Receivables	19,241
	$ 435,267

TLC is supported mainly by community contributions and governmental grants. TLC believes that the continuing support, along with assets held as of December 31, 2018, is sufficient to enable TLC to continue to operate for the coming year.

3. Investments

Investments are composed of the following:

	June 30, 2018	June 30, 2017
Money Market Funds	$ 16,899	$ 945
Equities	10,711	-
Mutual Funds	150,531	145,749
Fixed Income	-	15,449
Total Investments	$ 178,141	$ 162,143

The marketable securities at June 30, 2018 and 2017 are carried at fair value. The cumulative effect of unrealized gain (loss) is $16,544 and $9,205, respectively.

4. Fair Value Measurements

Financial Accounting Standards Board Statement ASC 820-10, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

4. Fair Value Measurements (Continued)

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that TLC has the ability to access.

Level 2 — Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs to the valuation methodology are unobservable, are significant to the fair value measurement and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Investments classified within Level 3 whose fair value measurements consider several inputs may include Level 1 and/or Level 2 inputs as components of the overall fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Corporate Bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net asset value ("NAV") of shares held by TLC at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while TLC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

4. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, TLC's assets at fair value as of June 30, 2018 and 2017:

	Assets at Fair Value as of June 30			
2018	Level 1	Level 2	Level 3	Total
Money Market Funds	$ 16,899	$ -	$ -	$ 16,899
Equities				
Healthcare	10,711	-	-	10,711
Mutual Funds				
Large Value	56,160	-	-	56,160
Bond Funds	94,371	-	-	94,371
Total Assets at Fair Value	$ 178,141	$ -	$ -	$ 178,141
2017				
Money Market Funds	$ 945	$ -	$ -	$ 945
Mutual Funds				
Large Value	51,206	-	-	51,206
Bond Funds	94,543	-	-	94,543
Fixed Income				
Corporate Bonds	-	15,449	-	15,449
Total Assets at Fair Value	$ 146,694	$ 15,449	$ -	$ 162,143

There were no transfers between Level 1, Level 2, and Level 3 investments in 2018 and 2017. Transfers are recognized at the end of the reporting period.

5. Grants and Other Receivables

Grants and other receivables consist of:

	June 30,	
	2018	2017
Community Development Block Grants	$ 15,284	$ 4,917
Various Other	3,957	-
	$ 19,241	$ 4,917

6. Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	June 30, 2018	June 30, 2017
Office and Program Equipment	$ 119,527	$ 92,741
Leasehold Improvements	29,680	29,680
Less: Accumulated Depreciation and Amortization	(82,622)	(67,644)
	$ 66,585	$ 54,777

Depreciation and amortization charged to expense was $14,978 and $15,395, for the years ended June 30 2018 and 2017, respectively.

7. Line of Credit

During the fiscal year ended June 30, 2018, TLC had available a $50,000 line of credit of which the entire balance was unused at June 30, 2018 and 2017. Bank advances on the credit line are payable on demand and carry an interest rate of the Wall Street Journal prime rate +0.5% as of June 30, 2018. The line of credit is collateralized by securities held in the BB&T Investments account, which had a market value of $178,141 on June 30, 2018. The line of credit expired on April 15, 2019 and was not renewed after expiration.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	June 30, 2018	June 30, 2017
Program Services and Related Equipment	$ 2,659	$ 12,700
	$ 2,659	$ 12,700

8. Net Assets With Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose:

	June 30, 2018	June 30, 2017
Released for Equipment Purchases	$ 10,041	$ -
	$ 10,041	$ -

9. Savings Plan

TLC provides its employees with the option of participation in a 403(b) salary reduction plan. The cost to TLC for this plan was $-0- for the years ending June 30, 2018 and 2017.

10. Leases

TLC leases its office space in Allentown under a multi-year lease expiring in August, 2022. Yearly rental expense, including parking, for the years ended June 30, 2018 and 2017 was $75,312 and $62,516, respectively. Future obligations of TLC's long-term leases as of June 30, 2018 are:

Year ending June 30,	
2019	$ 76,152
2020	78,437
2021	80,790
2022	83,214
2023	14,074
	$ 332,667

11. Summarized Totals for Year Ended June 30, 2017

The financial statements include certain prior-year summarized comparative information in total, but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2017, from which summarized information was derived.

12. Subsequent Events

Management has considered events subsequent to June 30, 2018 that affect TLC through May 14, 2019, the date the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.