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

Financial Statements and Independent Auditors' Report

June 30, 2016

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 AUDITORS' 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, 2016, 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.

Auditors' 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, 2016, 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 2015 financial statements, and our report dated October 22, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Campbell, Reppold & Yurasits LLP
Certified Public Accountants
Allentown, PA

September 21, 2016

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

	June 30, 2016	June 30, 2015
Assets		
Cash and Cash Equivalents	$ 122,241	$ 202,627
Investments (Notes 2 and 3)	154,380	118,367
Accounts Receivable (Note 4)	23,757	10,364
Inventory	3,366	2,180
Prepaid Expenses	15,175	17,035
Equipment and Building, Net (Note 5)	62,457	29,016
Total Assets	$ 381,376	$ 379,589
Liabilities and Net Assets		
Liabilities		
Accounts Payable and Accrued Expenses	$ 39,979	$ 37,804
Deferred Revenue	960	2,464
Lease Payable	971	3,536
Total Liabilities	41,910	43,804
Net Assets		
Unrestricted	339,466	328,672
Temporarily Restricted (Note 7)	-	7,113
Total Net Assets	339,466	335,785
Total Liabilities and Net Assets	$ 381,376	$ 379,589

See independent auditors' report and notes to financial statements.

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

	Year Ended June 30, 2016			Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Revenues, Gains, and Other Support						
Grants and Community Contributions	$ 297,676	$ 5,000	$ 302,676	$ 274,939	$ 420	$ 275,359
Contributed Services and Other In-Kinds (Note 1)	72,970	-	72,970	178,735	-	178,735
Governmental Grants	416,472	-	416,472	432,256	-	432,256
Service Revenue and Other	28,313	-	28,313	7,810	-	7,810
Special Events	1,000	-	1,000	17,418	-	17,418
Satisfaction of Restrictions	6,117	(6,117)	-	1,101	(1,101)	-
Total Revenues, Gains, and Other Support	822,548	(1,117)	821,431	912,259	(681)	911,578
Operating Expenses						
Program	666,949	-	666,949	689,151	-	689,151
Management and General	107,702	-	107,702	84,982	-	84,982
Fundraising	60,033	-	60,033	74,734	-	74,734
Total Expenses	834,684	-	834,684	848,867	-	848,867
Change in Net Assets from Operations	(12,136)	(1,117)	(13,253)	63,392	(681)	62,711
Other Changes in Net Assets						
Net Assets Released from Restrictions for Capital Improvements	18,996	(18,996)	-	706	(706)	-
Contributions Restricted for Capital Improvements	-	13,000	13,000	-	8,500	8,500
Investment Income	5,947	-	5,947	5,003	-	5,003
Net Realized/Unrealized Gain (Loss) on Investments	66	-	66	(3,725)	-	(3,725)
Loss on Disposal of Fixed Assets	(2,079)	-	(2,079)	-	-	-
Total Other Changes	22,930	(5,996)	16,934	1,984	7,794	9,778
Increase (Decrease) in Net Assets	10,794	(7,113)	3,681	65,376	7,113	72,489
Net Assets at Beginning of Year	328,672	7,113	335,785	263,296	-	263,296
Net Assets at End of Year	$ 339,466	$ -	$ 339,466	$ 328,672	$ 7,113	$ 335,785

See independent auditors' report and notes to financial statements.

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

	Year ended June 30, 2016	Year ended June 30, 2015
Cash Flows from Operating Activities		
Increase in Net Assets	$ 3,681	$ 72,489
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	17,828	24,530
Net Realized/Unrealized Gains/Losses on Investments	(66)	3,725
Loss on Disposal of Equipment and Leasehold Improvements	2,079	-
Contributions Restricted for Fixed Asset Purchases	(13,000)	(8,500)
(Increase) Decrease in Assets:		
Accounts Receivable	(13,393)	(6,982)
Inventory	(1,186)	(791)
Prepaid Expenses	1,860	(4,201)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	2,175	2,716
Deferred Revenue	(1,504)	2,464
Lease Payable	(2,565)	(5,186)
Net Cash Provided (Used) by Operating Activities	(4,091)	80,264
Cash Flows from Investing Activities		
Purchase of Investments	(35,947)	(15,003)
Proceeds from Sale of Investments	-	10,000
Purchase of Equipment and Leasehold Improvements	(53,348)	(706)
Net Cash Used by Investing Activities	(89,295)	(5,709)
Cash Flow from Financing Activities		
Contributions Restricted for Fixed Asset Purchases	13,000	8,500
Net Cash Provided by Financing Activities	13,000	8,500
Net Increase (Decrease) in Cash and Cash Equivalents	(80,386)	83,055
Cash and Cash Equivalents - Beginning of Year	202,627	119,572
Cash and Cash Equivalents - End of Year	$ 122,241	$ 202,627

See independent auditors' report and notes to financial statements.

THE LITERACY CENTER
(A Not-for-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016
With Comparative Totals for 2015

	Program Services	Management and General	Fund Raising	Year ended June 30, 2016	Year ended June 30, 2015
Salaries	$ 418,581	$ 73,440	$ 49,271	$ 541,292	$ 458,461
Employee Health Benefits	21,443	5,060	1,382	27,885	28,387
Payroll Taxes	42,663	7,482	5,022	55,167	42,814
Total Salaries and Related Expenses	482,687	85,982	55,675	624,344	529,662
Professional Fees	9,961	1,107	-	11,068	10,498
Office Supplies	2,599	650	-	3,249	2,242
Instructional Material	6,119	-	-	6,119	2,594
Telephone and Internet	3,038	338	-	3,376	3,153
Postage	611	87	174	872	1,596
Printing and Advertising	1,763	196	-	1,959	554
Travel	136	15	-	151	543
Conference and Meetings	2,336	-	-	2,336	1,965
Equipment Maintenance	3,445	382	-	3,827	4,728
Occupancy	51,390	5710	-	57,100	63,425
Insurance	8,391	932	-	9,323	8,922
Dues	434	48	-	482	364
Public Relations	-	-	1,255	1,255	617
Program Expenses	4,037	207	2,500	6,744	2,969
Student Book Purchases	-	-	-	-	-
Temporary Services	-	-	120	120	4,360
Board Functions	790	88	-	878	659
One Time Relocation Costs	-	10,052	-	10,052	-
Miscellaneous Expenses	197	125	-	322	1,038
Special Events	-	-	309	309	5,713
Special Events In-Kind Expense	-	-	-	-	17,642
Use of Contributed Services and Facilities (Note 1)	72,970	-	-	72,970	161,093
Total Expenses Before Depreciation	650,904	105,919	60,033	816,856	824,337
Depreciation	16,045	1,783	-	17,828	24,530
Total Expenses	$ 666,949	$ 107,702	$ 60,033	$ 834,684	$ 848,867

See independent auditors' 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, ***To help people of the Lehigh Valley achieve the literacy and English language skills needed to succeed in 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 instruction is offered at TLC's main offices in center city Allentown, as well as multiple accessible locations throughout Lehigh County. 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. For the 2015-16 school year, TLC was able to increase the number of classes it offered in efforts to accommodate the growing demand for our services.

TLC relocated in December 2015. The new location has six newly renovated, fully equipped classrooms, allowing all classes to meet on site. The new site also has a 24-computer technology lab available all open hours for student use. In addition, the new site has a dedicated family reading room. With the relocation to the new site, TLC no longer used donated community space, therefore reducing the in-kind donations.

During the 2016 academic year, seventy-three percent of the adult student enrollment was directed toward ESL (English as a Second Language) and ESL/Civics instruction for students seeking to obtain American citizenship. Twenty- seven percent of enrollment was focused on students seeking their Pennsylvania high school equivalency (GED) certificate. During this academic year, TLC revamped all instruction to include workforce initiatives that help to prepare students for sustainable employment. To help to address the Allentown School District and Lehigh County's rising concerns about students who drop out before attaining a high school diploma, TLC created a new track of GED instruction - *Say YES (Young Empowered Student) to Your Future.* 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.

In addition, TLC provides supplemental instruction in computer basics, project-based word processing, job searches on line, developing resumes, practicing interview techniques, health nutritional and financial literacy, conversation clubs, and provides family literacy initiatives focused on increasing family interaction through reading. All enrolled students receive support from in-house Transition Counselors who help students set and achieve goals, as well as help them maintain a commitment to their studies.

TLC utilizes a core of 85 trained volunteers who provide one on one and group tutoring, and share their expertise and support as classroom assistants.

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

Nature of Activities (Continued)

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. While EFL gains have fallen statewide for the past two years, TLC's EFL gains have increased over those past two years and are now 38% higher than the state's average.

In this fiscal year, the organization held a total of 17 (14 ESL and 2 GED + 1 YES) classes along with more than 50 individual and group tutoring sessions and supplemental educational programs delivering 76,220 student contact hours of direct instruction.

Basis of Accounting

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

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the actions of the Board of Directors.

Temporarily Restricted Net Assets - subject to donor-imposed stipulations that may be fulfilled by the actions of the Board of Directors or become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets - subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization 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.

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

Investments

The Organization has adopted FASB ASC 320-10, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under FASB ASC 320-10, 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 unrestricted net assets 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.

Inventory

Inventory, stated at lower of cost (first-in, first-out) or market, consists of books.

Equipment and Building

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

The Organization includes all changes in Unrestricted Net Assets in its "operating income" on the Statement of Activities except:

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

Contributions

The Organization reports gifts of cash and other assets as restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

Contributions (Continued)

The Organization reports gifts of land, buildings, and equipment as unrestricted support 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization 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 unrestricted use unless specifically restricted by the donor

Income Taxes

The Organization 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, the Organization 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 the Organization 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 2016 and 2015.

The Organization files its 990 with the United States Internal Revenue Service and with the Bureau of Charitable Organizations in Pennsylvania. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2013.

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 the Organization's program services and in its fund-raising campaigns.

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

Estimates and Assumptions

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.

Allocation of Expenses by Function

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

Program Services
Management and General
Fundraising

The Organization'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.

Reclassification

Certain 2015 amounts have been reclassified in order to conform to the 2016 financial statement presentation. These reclassifications have no effect on the changes in net assets as previously reported.

2. Investments

Investments are composed of the following:

	June 30, 2016	June 30, 2015
Money Market Funds	$ -	$ 4,736
Mutual Funds	138,158	96,925
Fixed Income	16,221	16,706
Total Investments	$ 154,380	$ 118,367

The marketable securities at June 30, 2016 and 2015 are carried at fair value. The cumulative effect of unrealized gain (loss) is $6,083 and $2,504, respectively.

3. 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:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization 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, 2016 and 2015.

Common stocks, corporate bonds and U.S. government securities: 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 the Organization at year end.

3. Fair Value Measurements (Continued)

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 the Organization 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.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2016 and 2015:

	Assets at Fair Value as of June 30			
2016	Level 1	Level 2	Level 3	Total
Money Market Funds	$ -	$ -	$ -	$ -
Mutual Funds				
Large Value	45,090	-	-	45,090
Bond Funds	93,068	-	-	93,069
Fixed Income				
Corporate Bonds	-	16,221	-	16,221
Total Assets at Fair Value	$ 138,158	$ 16,221	$ -	$ 154,380
2015				
Money Market Funds	$ 4,736	$ -	$ -	$ 4,736
Mutual Funds				
Large Value	40,254	-	-	40,254
Bond Funds	56,671	-	-	56,671
Fixed Income				
Corporate Bonds	-	16,706	-	16,706
Total Assets at Fair Value	$ 101,661	$ 16,706	$ -	$ 118,367

There were no transfers between Level 1, Level 2, and Level 3 investments in 2016 and 2015. Transfers are recognized at the end of the reporting period.

4. Accounts Receivable

Accounts receivable consist of:

	June 30, 2016	June 30, 2015
Community Development Block Grant	$ 11,432	$ 8,176
Pennsylvania Department of Education	12,067	-
Various Other	258	1,180
Instructional Services	-	1,008
	$ 23,757	$ 10,364

5. Equipment and Building

Equipment and building consists of the following:

	June 30, 2016	June 30, 2015
Office and Program Equipment	$ 130,923	$ 99,860
Leasehold Improvements	22,285	147,343
Less: Accumulated Depreciation and Amortization	(90,751)	(218,187)
	$ 62,457	$ 29,016

Depreciation and amortization charged to expense was $17,828 and $24,530, respectively.

6. Line of Credit

The Organization has a $50,000 line of credit expiring April 15, 2019, of which the entire balance was unused at June 30, 2016. 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, 2016. The line of credit is collateralized by securities held in the National Penn Primevest account, which had a market value of $154,380 on June 30, 2016.

11. Summarized Totals for Year Ended June 30, 2015

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, 2015, from which summarized information was derived.

12. Subsequent Events

Management has considered events subsequent to June 30, 2016 that affect the Organization through September 21, 2016, the date the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.