

PROLITERACY WORLDWIDE

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2018 and 2017

PROLITERACY WORLDWIDE

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grossman st. amour

CERTIFIED PUBLIC ACCOUNTANTS PLLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
ProLiteracy Worldwide
Syracuse, New York

We have audited the accompanying financial statements of ProLiteracy Worldwide, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, 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.

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 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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ProLiteracy Worldwide as of June 30, 2018 and 2017, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The calculation of indirect cost rate schedules on pages 21 and 22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Grossman St Amour CPAs

Syracuse, New York
October 12, 2018

PROLITERACY WORLDWIDE, INC.
Statements of Financial Position

	June 30,	
	2018	2017
ASSETS:		
Cash and cash equivalents	\$ 331,167	\$ 496,119
Accounts receivable - publishing, net	906,750	549,517
Prepaid expenses	268,930	179,540
Inventory of publications held for sale, net	534,764	499,434
Other assets	79,305	104,360
Investments	14,239,724	12,741,064
Property and equipment, net	181,993	233,912
TOTAL ASSETS	\$ 16,542,633	\$ 14,803,946
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 449,602	\$ 336,559
Royalties payable	158,902	153,251
Deferred Revenue	577,135	396,433
Reserve for split-interest trusts	1,643,528	916,004
TOTAL LIABILITIES	2,829,167	1,802,247
NET ASSETS:		
Unrestricted	10,708,083	9,574,843
Temporarily restricted	676,077	1,097,550
Permanently restricted	2,329,306	2,329,306
TOTAL NET ASSETS	13,713,466	13,001,699
TOTAL LIABILITIES AND NET ASSETS	\$ 16,542,633	\$ 14,803,946

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

PROLITERACY WORLDWIDE, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE, AND GAINS:				
Support:				
Grants - foundation and corporate	\$ 404,838	\$ -	\$ -	\$ 404,838
In-kind grant contributions	-	-	-	-
Contributions	580,317	82,174	-	662,491
Legacies & Bequests	356,334	-	-	356,334
Program services revenue:				
Publications	6,954,881	-	-	6,954,881
Membership dues	119,394	-	-	119,394
Conference income	422,927	-	-	422,927
Training and accreditation	56,437	-	-	56,437
Realized investment gains, interest and dividend income	656,083	362,919	-	1,019,002
Other income	45,343	-	-	45,343
	<u>9,596,554</u>	<u>445,093</u>	<u>-</u>	<u>10,041,647</u>
Net assets released from restrictions	<u>667,938</u>	<u>(667,938)</u>	<u>-</u>	<u>-</u>
Total support, revenue and gains	<u>10,264,492</u>	<u>(222,845)</u>	<u>-</u>	<u>10,041,647</u>
EXPENSES AND LOSSES:				
Program Services:				
Program and professional services	1,593,277	-	-	1,593,277
Public education/advocacy	3,992	-	-	3,992
Publishing	5,468,852	-	-	5,468,852
	<u>7,066,121</u>	<u>-</u>	<u>-</u>	<u>7,066,121</u>
Support services:				
Office of the president/finance and administration	1,909,617	-	-	1,909,617
Development / Fundraising	426,577	-	-	426,577
	<u>2,336,194</u>	<u>-</u>	<u>-</u>	<u>2,336,194</u>
Total program and support services expenses	<u>9,402,315</u>	<u>-</u>	<u>-</u>	<u>9,402,315</u>
Bad debt expense	<u>9,915</u>	<u>-</u>	<u>-</u>	<u>9,915</u>
Total operating expenses	<u>9,412,230</u>	<u>-</u>	<u>-</u>	<u>9,412,230</u>
Other (income) losses:				
Change in value of split interest trusts	-	143,471	-	143,471
Unrealized (gains) losses on investments	<u>(280,978)</u>	<u>55,157</u>	<u>-</u>	<u>(225,821)</u>
Total expenses and losses	<u>9,131,252</u>	<u>198,628</u>	<u>-</u>	<u>9,329,880</u>
Changes in net assets	<u>1,133,240</u>	<u>(421,473)</u>	<u>-</u>	<u>711,767</u>
Net assets, beginning	<u>9,574,843</u>	<u>1,097,550</u>	<u>2,329,306</u>	<u>13,001,699</u>
Net assets, ending	<u>\$ 10,708,083</u>	<u>\$ 676,077</u>	<u>\$ 2,329,306</u>	<u>\$ 13,713,466</u>

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

PROLITERACY WORLDWIDE, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE, AND GAINS:				
Support:				
Grants - foundation and corporate	\$ 131,137	\$ 359,345	\$ -	\$ 490,482
In-kind grant contributions	-	-	-	-
Contributions	545,053	-	-	545,053
Legacies & Bequests	295,489	-	-	295,489
Program services revenue:				
Publications	6,958,032	-	-	6,958,032
Membership dues	184,839	-	-	184,839
Conference income	-	-	-	-
Training and accreditation	30,455	-	-	30,455
Realized investment gains, interest and dividend income	353,946	166,340	-	520,286
	<u>8,498,951</u>	<u>525,685</u>	<u>-</u>	<u>9,024,636</u>
Net assets released from restrictions	434,792	(434,792)	-	-
Total support, revenue and gains	<u>8,933,743</u>	<u>90,893</u>	<u>-</u>	<u>9,024,636</u>
EXPENSES AND LOSSES:				
Program Services:				
Program and professional services	936,256	-	-	936,256
Public education/advocacy	7,085	-	-	7,085
Publishing	5,285,460	-	-	5,285,460
	<u>6,228,801</u>	<u>-</u>	<u>-</u>	<u>6,228,801</u>
Support services:				
Office of the president/finance and administration	1,909,784	-	-	1,909,784
Development / Fundraising	542,308	-	-	542,308
	<u>2,452,092</u>	<u>-</u>	<u>-</u>	<u>2,452,092</u>
Total program and support services expenses	8,680,893	-	-	8,680,893
Bad debt expense	11,139	-	-	11,139
Total operating expenses	<u>8,692,032</u>	<u>-</u>	<u>-</u>	<u>8,692,032</u>
Other (income) losses:				
Change in value of split interest trusts	-	72,985	-	72,985
Unrealized (gains) losses on investments	(1,095,823)	4,814	-	(1,091,009)
Total expenses and losses	7,596,209	77,799	-	7,674,008
Changes in net assets	1,337,534	13,094	-	1,350,628
Net assets, beginning	<u>8,237,309</u>	<u>1,084,456</u>	<u>2,329,306</u>	<u>11,651,071</u>
Net assets, ending	<u>\$ 9,574,843</u>	<u>\$ 1,097,550</u>	<u>\$ 2,329,306</u>	<u>\$ 13,001,699</u>

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

PROLITERACY WORLDWIDE, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program and Program Services				Support Services			
	Program and Professional Services	Public Education/ Advocacy	Publishing	Total Programs	Office of the president/finance and administration	Development/ Fundraising	Total Support	Total Expenses
Salaries and related expenses:								
Salaries	\$ 486,562	\$ -	\$ 1,097,103	\$ 1,583,665	\$ 757,856	\$ 247,657	\$ 1,005,513	\$ 2,589,178
Employee benefits	61,496	-	114,971	176,467	132,971	36,311	169,282	345,749
Payroll taxes	36,113	-	66,394	102,507	54,492	19,518	74,010	176,517
Total salaries and related expenses	584,171	-	1,278,468	1,862,639	945,319	303,486	1,248,805	3,111,444
Operating expenses								
Grants and allocations	252,801	-	-	252,801	-	-	-	252,801
Consultants and professional fees	278,587	-	1,479,961	1,758,548	329,313	65,095	394,408	2,152,956
Supplies	2,637	-	20,757	23,394	13,940	888	14,828	38,222
Telephone and communications	9,078	-	1,922	11,000	24,163	1,956	26,119	37,119
Postage, delivery and shipping	19,961	-	367,979	387,940	12,314	3,834	16,148	404,088
Occupancy and related costs	3,329	-	217,133	220,462	423,600	17,333	440,933	661,395
Printing and publications	26,280	1,000	1,977,458	2,004,738	15,881	9,689	25,570	2,030,308
Travel, conferences, conventions	416,433	2,992	125,174	544,599	68,747	24,296	93,043	637,642
Depreciation and amortization	-	-	-	-	76,340	-	76,340	76,340
Total operating expenses	1,009,106	3,992	4,190,384	5,203,482	964,298	123,091	1,087,389	6,290,871
Total program and support services expenses	\$ 1,593,277	\$ 3,992	\$ 5,468,852	\$ 7,066,121	\$ 1,909,617	\$ 426,577	\$ 2,336,194	\$ 9,402,315

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

PROLITERACY WORLDWIDE, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program and Program Services				Support Services			
	Program and Professional Services	Public Education/ Advocacy	Publishing	Total Programs	Office of the president/finance and administration	Development/ Fundraising	Total Support	Total Expenses
Salaries and related expenses:								
Salaries	\$ 411,747	\$ -	\$ 948,740	\$ 1,360,487	\$ 854,153	\$ 250,119	\$ 1,104,272	\$ 2,464,759
Employee benefits	44,747	-	72,176	116,923	112,034	21,911	133,945	250,868
Payroll taxes	46,605	-	73,298	119,903	37,420	20,970	58,390	178,293
Total salaries and related expenses	503,099	-	1,094,214	1,597,313	1,003,607	293,000	1,296,607	2,893,920
Operating expenses								
Grants and allocations	165,559	-	-	165,559	-	-	-	165,559
Consultants and professional fees	123,083	2,702	1,534,450	1,660,235	217,695	145,987	363,682	2,023,917
Supplies	6,522	-	17,530	24,052	27,768	351	28,119	52,171
Telephone and communications	2,987	-	1,202	4,189	46,668	1,297	47,965	52,154
Postage, delivery and shipping	21,964	-	390,318	412,282	11,651	12,833	24,484	436,766
Occupancy and related costs	-	-	128,656	128,656	411,318	44,778	456,096	584,752
Printing and publications	27,884	-	2,039,124	2,067,008	12,338	15,276	27,614	2,094,622
Travel, conferences, conventions	85,158	4,383	79,966	169,507	59,453	28,786	88,239	257,746
Depreciation and amortization	-	-	-	-	119,286	-	119,286	119,286
Total operating expenses	433,157	7,085	4,191,246	4,631,488	906,177	249,308	1,155,485	5,786,973
Total program and support services expenses	\$ 936,256	\$ 7,085	\$ 5,285,460	\$ 6,228,801	\$ 1,909,784	\$ 542,308	\$ 2,452,092	\$ 8,680,893

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

PROLITERACY WORLDWIDE, INC.
Statements of Cash Flows

	Years ended June 30,	
	2018	2017
Cash flow from operating activities:		
Change in net assets	\$ 711,767	\$ 1,350,628
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	76,340	119,286
Bad debt expense	9,915	11,139
Net unrealized losses on investments	(225,821)	(1,091,009)
Change in value of split-interest agreements	143,470	72,985
Gain on disposal of property and equipment	-	(1,813)
Changes in operating assets and liabilities:		
Accounts receivable - publishing	(367,147)	46,440
Grants and pledges receivable	-	8,000
Prepaid expenses and other assets	(64,335)	(45,303)
Inventory of publications held for sale	(35,330)	7,657
Accounts payable and accrued expenses	113,043	(53,920)
Deferred income	180,702	396,433
Royalties payable	5,651	3,259
Net cash provided by operating activities	548,256	823,782
Cash flow from investing activities:		
Reinvested investment gains and income	1,019,002	520,286
Purchase of property and equipment	(21,631)	(35,964)
Proceeds from disposal of property and equipment	-	5,000
Payments of trust obligations	(422,333)	(87,212)
Proceeds from sale of investments	2,203,047	714,597
Purchase of investments	(3,491,293)	(2,080,497)
Net cash used in investing activities	(713,208)	(963,790)
 Net decrease in cash and cash equivalents	 (164,952)	 (140,008)
Cash and cash equivalents, beginning of year	496,119	636,127
Cash and cash equivalents, end of year	<u>\$ 331,167</u>	<u>\$ 496,119</u>

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

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Organization

ProLiteracy Worldwide ("PL" or "Organization") is an educational organization that champions the power of literacy through its programs and publications, training and professional development services, research, and advocacy. PL works together with members and partners and the adult learners they serve, and with local, national, and international organizations that have common missions, goals and objectives. The Organization is instrumental in building the capacity and quality of programs teaching adults to read, write, compute, use technology, and to learn English as a new language.

Basis of Presentation

The accompanying financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 958 accounting for contributions received and contributions made financial statements of not-for-profit organizations. Contributions are recognized as revenue when they are received or unconditionally pledged. FASB ASC Topic 958 requires that net assets be classified as (1) unrestricted; (2) temporarily restricted; or (3) permanently restricted depending on limitations placed on the net assets by donors. These classifications are defined as follows:

- 1) Unrestricted net assets** are net assets that are not subject to donor-imposed restriction.
- 2) Temporarily restricted net assets** are net assets subject to donor imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As they are used for their intended purpose, they are recorded in the Statement of Activities as net assets released from restrictions. Temporarily restricted net assets include annuity and life income funds subject to restrictions of gift instruments requiring that PL periodically pay stipulated amounts of annuity funds or the income earned on the assets of the life income funds to designated beneficiaries. Such payments terminate at the time specified by the donor, which is usually upon the death of the beneficiary. At such time the assets of life income funds becomes available to the Organization for unrestricted use or for use as restricted by the donor. Donor restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying financial statements.
- 3) Permanently restricted net assets** are net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, these net assets are classified as endowments and donors of these assets permit the institution to use all or part of the income earned on related investments for general purposes. Gains on permanently restricted net assets are available for the designated purpose as specified by the donor.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For financial statement reporting purposes, the Organization considers all highly liquid investments with a maturity of three months or less when purchased or donated to be cash equivalents.

Investments

In accordance with FASB ASC Sub-Topic 958-320, relating to the accounting for certain investments held by non-profit organizations, investments are carried at estimated fair value based on quoted market prices. Investments received through gifts are recorded at estimated fair market value at the date of donation. Investment income or losses (including realized gains and losses on investments, interest and dividends) are reported when earned and included as operating activities in the Statement of Activities. Unrealized gains and losses have been classified as other (income) losses in the Statement of Activities. In the absence of any donor-imposed or legal restrictions on how investment income may be used, gains are reported as an increase in unrestricted net assets. A loss, realized or unrealized, is recorded as a decrease in unrestricted net assets. If restrictions do exist on the use of an investment, the gain or loss is shown as an increase or decrease in either temporarily or permanently restricted net assets, depending on the type of restriction existing. Investment income (i.e., interest and dividends) earned during the year is reported as an increase in unrestricted net assets, unless the income's use is restricted; in that case, temporarily or permanently restricted net assets are increased depending upon the restriction.

Inventory of Publications Held for Sale

Inventory is carried at the lower of cost or market value using the first-in, first-out method (FIFO) of valuing inventory and shown net of the allowance for slow moving and obsolete inventory, which totaled \$50,000 as of June 30, 2018 and 2017, respectively. Inventory costs include printing, production, royalties, and other publication costs directly relating to the publications held for sale.

Property and Equipment

Property is recorded at cost at the date of acquisition or in the case of a gift, fair value at the date of donation, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. When property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recorded in the Statement of Activities. The Organization capitalizes all expenditures for property, which exceed \$500.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Endowments

The Organization's endowments consist of approximately 11 individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions as indicated in the consolidated Statement of Financial Position.

The Board of the Organization has utilized New York State's *Advice for Non-For-Profit Corporations on the Appropriation of Endowment Fund Appreciation* to develop its interpretation of the current requirements as they relate to endowment fund assets and the maintenance of historical dollar value (HDV) of individual endowments. In addition, the Organization has implemented the New York Prudent Management of Institutional Funds Act (NYPMIFA), as of September 2010 when New York State implemented the regulations. In accordance with NYPMIFA regulations, the Organization records all accumulated appreciation of endowment assets as temporarily restricted net assets until the funds are appropriated for spending. Depreciation of endowment assets reduces temporarily restricted net assets to the extent unrealized gains have been accumulated and then reduces unrestricted net assets. Under NYPMIFA guidelines, the Organization, with donor approval and Board approval, has the option to spend below the HDV of the individual endowments. Under NYPMIFA, unless an endowment fund grant instrument specifically requires the Foundation to maintain the purchasing power of such fund, the Foundation is not charged with doing so.

For 2018 and 2017, the Organization has set the annual spending rate at 5%. The activity in the endowment funds is shown in the Statement of Activities. During 2018 and 2017, approximately \$200,000 and \$89,000 was appropriated for expenditure, respectively.

Split Interest Agreements

The Organization is the beneficiary of trusts, annuities and pooled income funds. PL's interest in these split interest agreements is reported as a contribution in the year received at its net present value, adjusted annually, based upon actuarially determined rates.

Accounts and Grants Receivable

Accounts receivable relate to publication sales and are reported at the estimated net realizable value. The Organization recorded an allowance for doubtful accounts of approximately \$26,000 at June 30, 2018 and 2017.

During 2018 and 2017, the Organization recognized bad debt expense of approximately \$10,000 and \$11,000, respectively. Bad debt expense during the 2018 and 2017 fiscal years are the result of uncollectible receivables related to sales. The expense is reflected in temporarily restricted net assets on the Statement of Activities.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Organization is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code. The Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. The Organization's publishing activities, although regularly carried on, are considered a significant contributor to the accomplishment of PL's mission, goals and objectives and therefore not subjected to unrelated business income tax (UBIT). For the years ended June 30, 2018 and 2017, no provision for UBIT has been included in the Statements of Activities.

Uncertain Tax Positions

In accordance with the disclosure provisions of FASB ASC Sub-Topic 740-19 which addresses accounting for uncertainties in income taxes, as of and for the years ended June 30, 2018 and 2017, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. It is the Organization's policy to recognize any interest and penalties in the provision for taxes. The Organization's returns are subject to examination by taxing authorities for a period of three years from the date they are filed.

Royalties

Royalties payable represent amounts due to authors based upon contractual agreements for specific percentages from current year sales of publications. Royalties paid in advance of sales, if any, are included in other assets on the Statements of Financial Position.

Revenue Recognition and Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions and grant revenue are classified into temporarily restricted or unrestricted net assets. Contributions of long-lived assets received without donor stipulations about how long the asset must be used, are recorded at fair value as unrestricted revenue. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of time or purpose restrictions.

The Organization reports gifts, cash and other assets as temporarily 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. The Organization has adopted a policy requiring all grant revenue and contributions be recorded as unrestricted net assets if the restriction expires in the same reporting period.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition and Contributions (continued)

Grants and pledges receivable represent amounts committed by donors that have not been received by the Organization. There are no grants and pledges receivable as of June 30, 2018 and 2017.

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets; (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization reports such contributions at their estimated fair market value in the period received. For the years ended June 30, 2018 and 2017, the Organization did not receive a substantial amount of unpaid volunteer support nor professional services.

Revenue related to the sales of publications is recognized when products are sold. Historically, costs or losses associated with future returns of publications have not been significant and therefore have not been accrued by the Organization as of June 30, 2018 and 2017.

Bequests

Bequests are recorded as income when the respective instrument is probated and substantial notification of the bequest is received.

Shipping and Handling Costs

Shipping and handling costs are included in the Statements of Activities and Statements of Functional Expenses as a component of Program Services - Publishing since these amounts represent the direct costs of shipping the Organization's publications to its customers.

Retirement Plan

The Organization maintains a defined contribution retirement plan with OneGroup covering employees who have completed two years of service and work at least 20 hours per week. The Organization has a discretionary match and can contribute varying percentages of employees' salaries based on years of service. Employer retirement contributions for the years ended June 30, 2018 or 2017 were \$83,648 and \$50,762, respectively. The Organization also sponsors a 403(b) plan, which provides for employee contributions and discretionary employer matching contributions.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs based upon management's estimates of the benefit directly derived by the program. Indirect costs (overhead and other general and administrative expenses that could not be directly allocated) for the years ended June 30, 2018 and 2017 have been calculated as the percentage of total administrative costs to total costs.

Use of Estimates

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 may differ from these estimates.

Risks and Uncertainties

Investment securities (including cash equivalents) are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term would materially affect the amounts reported in the Statements of Financial Position and the Statements of Activities.

2. Fair Value Measurement

Investments, consisting principally of equity securities and shares in mutual funds, are stated at market value. Unrealized and realized gains and losses are reported in the Statements of Activities. The Organization's investments are reported at fair value in the accompanying statements of activities and changes in net assets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, although 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 fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable and have the lowest priority.

PROLITERACY WORLDWIDE
Notes to Financial Statements

2. Fair Value Measurement (continued)

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or Level 3 inputs were available to the Organization.

Level 1 Fair Value Measurements: The fair values of cash equivalents, mutual funds including fixed income, domestic equity, international equity, developing markets, infrastructure, real estate, commodities, and natural resources are based on the closing price reported in the active market where the individual securities are traded, when available. The following table sets forth by level, within the fair value hierarchy, the Organization's investment assets at fair value as of June 30, 2018:

Description	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual funds				
Fixed Income	\$ 3,384,059	\$ 3,384,059	\$ -	\$ -
Domestic Equity	4,915,485	4,915,485	-	-
International Equity	2,651,721	2,651,721	-	-
Developing Markets	1,246,112	1,246,112	-	-
Infrastructure	344,645	344,645	-	-
Natural Resources	822,510	822,510	-	-
Real Estate	288,376	288,376	-	-
Miscellaneous	64,135	64,135	-	-
Total mutual funds	13,717,043	13,717,043	-	-
Cash and cash equivalents	522,681	522,681	-	-
	\$ 14,239,724	\$ 14,239,724	\$ -	\$ -

PROLITERACY WORLDWIDE
Notes to Financial Statements

2. Fair Value Measurement (continued)

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

Description	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual funds				
Fixed Income	\$ 2,083,839	\$ 2,083,839	\$ -	\$ -
Domestic Equity	3,879,398	3,879,398	-	-
International Equity	2,672,837	2,672,837	-	-
Developing Markets	1,255,549	1,255,549	-	-
Infrastructure	440,549	440,549	-	-
Natural Resources	825,534	825,534	-	-
Real Estate	422,966	422,966	-	-
Total mutual funds	11,580,672	11,580,672	-	-
Cash and cash equivalents	1,160,392	1,160,392	-	-
	<u>\$ 12,741,064</u>	<u>\$ 12,741,064</u>	<u>\$ -</u>	<u>\$ -</u>

3. Investments

Investments are classified in the following categories at June 30:

	2018	2017
Unrestricted funds	(a) \$ 3,939,144	\$ 3,874,330
Board Designated	(a) 6,237,454	5,792,027
Annuities life	(b) 359,934	366,808
Life income funds	(c) 225,673	213,526
Irrevocable trusts	(d) 2,013,739	1,132,185
Endowment funds	(e) 1,463,780	1,362,188
	<u>\$ 14,239,724</u>	<u>\$ 12,741,064</u>

(a) Unrestricted Funds

These funds are unrestricted as to their use and may be used for any purpose as determined by the Board of Trustees. They represent the portion of expendable funds that is available to support the Organization's operating activities.

PROLITERACY WORLDWIDE
Notes to Financial Statements

3. Investments (continued)

(b) Annuities

The Organization acts as trustee on numerous annuity contracts under which the donor made an initial contribution to support the Organizations operating activities. The Organization has contracted to pay the donor a specific periodic amount over the donor's remaining life. These contracts are administered by either the Organization or an insurance company. Investments represent assets to be used for payment of annuities over the expected remaining life of the donor. The Organization holds assets greater than or equal to 115% of amounts payable under these annuities as required by New York State law. This requires the assets held by the Organization to be greater than approximately \$245,000 and \$339,000 at June 30, 2018 and 2017, respectively. The Organization met these requirements in both fiscal years and these funds are classified as temporarily restricted.

(c) Life Income Funds

PL is trustee of several life income funds whereby the grantor has made an initial contribution and the Organization makes period income payments to the grantor. Upon death of the grantor, all trust assets become the unrestricted property of the Organization. These funds are classified as temporarily restricted.

(d) Revocable and Irrevocable Trusts

The Organization acts as trustee on all associated revocable and irrevocable trusts. Investment income and, when necessary and applicable, trust principal is used to make income payments to the donors. Investment performance and distributions to donors will cause the value of these assets to fluctuate over time. These funds are classified as temporarily restricted.

(e) Endowment Funds

Certain endowment funds are subject to donor-imposed restrictions under the related gift instruments. As such, the principal portion of these funds is classified as permanently restricted and the income generated is classified as unrestricted. The Organization's Board of Trustees earmarked a portion of its unrestricted net assets as a board-designated endowment to be invested to provide income for an unspecified period of time. This board-designated endowment, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets.

4. Investment Return

The following schedule summarizes investment return and classification in the Statement of Activities for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Total
Investment income	\$ 251,406	\$ 76,018	\$ 327,424
Realized gain	404,677	286,901	691,578
	656,083	362,919	1,019,002
Unrealized gain (loss)	\$ 280,978	\$ (55,157)	\$ 225,821

PROLITERACY WORLDWIDE
Notes to Financial Statements

4. Investment Return (continued)

The following schedule summarizes investment return and classification in the Statement of Activities for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Total
Investment income	\$ 267,566	\$ 44,125	\$ 311,691
Realized gain	86,380	122,215	208,595
	<u>353,946</u>	<u>166,340</u>	<u>520,286</u>
Unrealized gain (loss)	\$ <u>1,095,823</u>	\$ <u>(4,814)</u>	\$ <u>1,091,009</u>

5. Property and Equipment

Major classes of property and equipment as of June 30 are as follows:

	2018	2017
Furniture and office equipment	\$ 1,315,685	\$ 1,385,556
Less accumulated depreciation	<u>(1,133,692)</u>	<u>(1,151,644)</u>
	<u>\$ 181,993</u>	<u>\$ 233,912</u>

For the years ended June 30, 2018 and 2017, depreciation expense totaled \$76,340 and \$119,286, respectively. Approximately \$91,000 of fully depreciated assets were disposed of during the 2018 fiscal year.

6. Split-Interest Agreements

Arrangements under which the Organization shares benefit with donors and other entities are accounted for as split-interest agreements. Assets are recorded in the Statements of Financial Position at fair market value and are included in investments. Life income and trust reserves are determined based on assumptions including a 6% rate of return for June 30, 2018 and 2017, various discount rates and life expectancy tables.

Split interest agreements consisted of the following at June 30, 2018:

	Investments at Fair Market Value	Reserve	Net
Life income funds	\$ 225,673	\$ 6,706	\$ 218,967
Irrevocable trusts	2,013,739	1,423,592	590,147
Annuities	<u>359,934</u>	<u>213,230</u>	<u>146,704</u>
	<u>\$ 2,599,346</u>	<u>\$ 1,643,528</u>	<u>\$ 955,818</u>

PROLITERACY WORLDWIDE
Notes to Financial Statements

6. Split-Interest Agreements (continued)

Split interest agreements consisted of the following at June 30, 2017:

	Investments at Fair Market Value	Reserve	Net
Life income funds	\$ 213,526	\$ 13,555	\$ 199,971
Irrevocable trusts	1,132,185	563,266	568,919
Annuities	366,808	339,183	27,625
	<u>\$ 1,712,519</u>	<u>\$ 916,004</u>	<u>\$ 796,515</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	2018	2017
Trust agreements	\$ 578,983	\$ 568,920
Dollar General Literacy Foundation	1,796	391,303
Bible project (Colvin)	1,956	1,956
International programs	1,046	5,046
Pitney Bowes	-	120,203
National Book Fund	92,296	10,122
	<u>\$ 676,077</u>	<u>\$ 1,097,550</u>

8. Net Assets Released From Restriction

Net assets were released from donor-imposed restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors. Purpose restrictions accomplished in the years ended June 30 were:

	2018	2017
Dollar General programs	\$ 389,507	\$ 403,765
Pitney Bowes	120,203	-
United Methodist Women	4,000	6,000
Trust agreements	154,228	25,027
	<u>\$ 667,938</u>	<u>\$ 434,792</u>

PROLITERACY WORLDWIDE
Notes to Financial Statements

9. Operating Leases

The Organization is committed under an operating agreement for warehouse space. The original lease term is five years commencing on June 1, 2010 and ending on May 31, 2015. The lease was renegotiated and extended to May 31, 2022. Rental expense for the warehouse during 2018 was approximately \$63,000.

The Organization is committed under an operating agreement for copiers. The lease term is five years commencing in May 1, 2017. The operating lease calls for fixed monthly payments of approximately \$1,200, which includes service costs.

The Organization is committed under an operating agreement for office space. The lease term is ten years commencing on July 1, 2012. The operating lease calls for fixed monthly payments of \$25,536. Rental expense for this office space during 2018 was approximately \$306,435.

Future minimum rental payments on PL's operating leases are as follows:

Fiscal year ending,		
2019	\$	384,371
2020		384,371
2021		384,371
2022		351,135
	\$	<u>1,504,248</u>

10. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to credit risk consist principally of unsecured accounts receivable relating to sales of publications.

The Organization maintains its principal banking relationship with one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC). At times, PL has amounts on deposit with this one financial institution in excess of the amounts insured by the FDIC. Additionally, PL at times may maintain securities and cash balances at this financial institution. Securities Investor Protection Corporation protects balances up to \$500,000 for securities held by this financial institution. Management believes the risk in these situations is minimal.

11. Subsequent Events

In preparing financial statements, management of the Organization has evaluated events and transactions for potential recognition or disclosure through October 12, 2018, the date the financial statements were available to be issued. There were no events or transactions that were discovered during the evaluation that required further disclosure.

PROLITERACY WORLDWIDE, INC.
Calculation of Indirect Cost Rate
For the Year Ended June 30, 2018

Program Expenses (a)	Program Services - Publishing (b)	Total Program Expenses and Program Services (c)	Development/ Fundraising (d)	Office of the President/Finance and Administration (e)	Rate (e)/(c+d+e)
\$ 1,597,269	\$ 5,468,852	\$ 7,066,121	\$ 426,577	\$ 1,909,617	20.31%
(a) Program expenses:					
Programs and professional services				\$ 1,593,277	
Public education/advocacy				3,992	
				<u>\$ 1,597,269</u>	
(b) Program services:					
Publishing				<u>\$ 5,468,852</u>	
(d) Development / Fundraising					
				<u>\$ 426,577</u>	
(e) Office of the president/finance and administration					
				<u>\$ 1,909,617</u>	

PROLITERACY WORLDWIDE, INC.
Calculation of Indirect Cost Rate
For the Year Ended June 30, 2017

Program Expenses (a)	Program Services - Publishing (b)	Total Program Expenses and Program Services (c)	Development/ Fundraising (d)	Office of the President/Finance and Administration (e)	Rate (e)/(c+d+e)
\$ 943,341	\$ 5,285,460	\$ 6,228,801	\$ 542,308	\$ 1,909,784	22.00%
(a) Program expenses:					
Programs and professional services				\$ 936,256	
Public education/advocacy				7,085	
				<u>\$ 943,341</u>	
(b) Program services:					
Publishing				<u>\$ 5,285,460</u>	
(d) Development / Fundraising					
				<u>\$ 542,308</u>	
(e) Office of the president/finance and administration					
				<u>\$ 1,909,784</u>	