

PROLITERACY WORLDWIDE

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets, functional expenses 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 schedule on page 23 is 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 17, 2019

PROLITERACY WORLDWIDE, INC.
Statements of Financial Position

	June 30,	
ASSETS:	2019	2018
Cash and cash equivalents	\$ 408,913	\$ 331,167
Accounts receivable - publishing, net	1,372,383	906,750
Prepaid expenses	326,934	268,930
Inventory of publications held for sale, net	715,795	534,761
Other assets	17,458	79,305
Investments	13,714,261	14,239,724
Property and equipment, net	151,575	181,993
TOTAL ASSETS	\$ 16,707,319	\$ 16,542,630
 LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 999,356	\$ 449,599
Royalties payable	133,152	158,902
Deferred revenue	743,599	862,689
Reserve for split-interest trusts	1,430,258	1,643,528
TOTAL LIABILITIES	3,306,365	3,114,718
 NET ASSETS (DEFICIT):		
Without donor restrictions	10,865,725	10,422,529
With donor restrictions	2,535,229	3,005,383
TOTAL NET ASSETS	13,400,954	13,427,912
TOTAL LIABILITIES AND NET ASSETS	\$ 16,707,319	\$ 16,542,630

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND GAINS:			
Support:			
Grants - foundation and corporate	\$ 612,704	\$ -	\$ 612,704
Contributions	933,505	16,000	949,505
Legacies & bequests	179,700	-	179,700
			-
Program services revenue:			-
Publications	7,805,261	-	7,805,261
Membership dues	137,782	-	137,782
Conference income	-	-	-
Training and accreditation	37,107	-	37,107
			-
Board approved investment spending	427,336	-	427,336
Other income	18,346	-	18,346
	10,151,741	16,000	10,167,741
Net assets released from restrictions	534,204	(534,204)	-
Total support, revenue and gains	\$ 10,685,945	\$ (518,204)	\$ 10,167,741
EXPENSES AND LOSSES:			
Operating expenses:			
Program and program services	\$ 7,946,922	\$ -	\$ 7,946,922
Management	1,608,926	-	1,608,926
Fundraising	504,661	-	504,661
Total program and support services expenses	10,060,509	-	10,060,509
Bad debt expense	2,402	-	2,402
Total operating expenses	10,062,911	-	10,062,911
Other (income) losses:			
Change in value of split interest trusts	-	322,479	322,479
Investment earnings	179,838	(370,529)	(190,691)
Total expenses and losses	10,242,749	(48,050)	10,194,699
Changes in net assets	443,196	(470,154)	(26,958)
Net assets, beginning (as restated)	10,422,529	3,005,383	13,427,912
Net assets, ending	\$ 10,865,725	\$ 2,535,229	\$ 13,400,954

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

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, AND GAINS:			
Support:			
Grants - foundation and corporate	\$ 404,838	\$ -	\$ 404,838
Contributions	580,317	82,174	662,491
Legacies & bequests	356,334	-	356,334
			-
Program services revenue:			-
Publications	6,970,108	-	6,970,108
Membership dues	108,949	-	108,949
Conference income	422,927	-	422,927
Training and accreditation	56,437	-	56,437
			-
Board approved investment spending	200,000	-	200,000
Other income	45,302	-	45,302
	<u>9,145,212</u>	<u>82,174</u>	<u>9,227,386</u>
Net assets released from restrictions	<u>667,938</u>	<u>(667,938)</u>	<u>-</u>
Total support, revenue and gains	<u>\$ 9,813,150</u>	<u>\$ (585,764)</u>	<u>\$ 9,227,386</u>
EXPENSES AND LOSSES:			
Operating expenses:			
Program and program services	\$ 7,066,121	\$ -	\$ 7,066,121
Management	1,909,617	-	1,909,617
Fundraising	426,577	-	426,577
Total program and support services expenses	<u>9,402,315</u>	<u>-</u>	<u>9,402,315</u>
Bad debt expense	<u>9,915</u>	<u>-</u>	<u>9,915</u>
Total operating expenses	<u>9,412,230</u>	<u>-</u>	<u>9,412,230</u>
Other (income) losses:			
Change in value of split interest trusts	-	143,471	143,471
Investment earnings	<u>(737,100)</u>	<u>(307,762)</u>	<u>(1,044,862)</u>
Total expenses and losses	8,675,130	(164,291)	8,510,839
Changes in net assets	1,138,020	(421,473)	716,547
Net assets, beginning	9,574,843	3,426,856	13,001,699
Cumulative effect of change in accounting principle	<u>(290,334)</u>	<u>-</u>	<u>(290,334)</u>
Net assets, ending (as restated)	<u>\$ 10,422,529</u>	<u>\$ 3,005,383</u>	<u>\$ 13,427,912</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, 2019

	Program and Program Services				Support Services			Total Expenses
	Program and Professional Services	Public Education/ Advocacy	Publishing	Total Programs	Management	Fundraising	Total Support	
Salaries and related expenses:								
Salaries	\$ 591,094	\$ -	\$ 1,245,093	\$ 1,836,187	\$ 728,743	\$ 284,315	\$ 1,013,058	\$ 2,849,245
Employee benefits	70,676	-	114,069	184,745	130,110	41,103	171,213	355,958
Payroll taxes	42,968	-	73,758	116,726	51,756	22,332	74,088	190,814
Total salaries and related expenses	704,738	-	1,432,920	2,137,658	910,609	347,750	1,258,359	3,396,017
Other operating expenses:								
Grants and allocations	175,973	-	-	175,973	-	-	-	175,973
Consultants and professional fees	452,715	-	1,537,526	1,990,241	313,474	55,585	369,059	2,359,300
Supplies	1,573	-	7,036	8,609	17,874	643	18,517	27,126
Telephone and communications	16,723	-	18,618	35,341	16,495	1,558	18,053	53,394
Postage, delivery and shipping	17,263	-	439,470	456,733	2,327	11,880	14,207	470,940
Occupancy and related costs	126,240	-	451,481	577,721	203,501	38,983	242,484	820,205
Printing and publications	21,100	-	2,310,305	2,331,405	10,923	8,797	19,720	2,351,125
Travel, conferences, conventions	42,372	-	140,698	183,070	108,637	39,465	148,102	331,172
Depreciation	18,814	-	31,357	50,171	25,086	-	25,086	75,257
Total other operating expenses	872,773	-	4,936,491	5,809,264	698,317	156,911	855,228	6,664,492
Total program and support services expenses	1,577,511	-	6,369,411	7,946,922	1,608,926	504,661	2,113,587	10,060,509
Bad debt expense	-	-	2,402	2,402	-	-	-	2,402
Total operating expenses	\$ 1,577,511	\$ -	\$ 6,371,813	\$ 7,949,324	\$ 1,608,926	\$ 504,661	\$ 2,113,587	\$ 10,062,911

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	Management	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
Other 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	-	-	-	-	76,340	-	76,340	76,340
Total other 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
Bad debt expense	-	-	9,915	9,915	-	-	-	9,915
Total operating expenses	<u>\$ 1,593,277</u>	<u>\$ 3,992</u>	<u>\$ 5,478,767</u>	<u>\$ 7,076,036</u>	<u>\$ 1,909,617</u>	<u>\$ 426,577</u>	<u>\$ 2,336,194</u>	<u>\$ 9,412,230</u>

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

PROLITERACY WORLDWIDE, INC.
Statements of Cash Flows

	Years ended June 30,	
	2019	2018
Cash flow from operating activities:		
Change in net assets	\$ (26,958)	\$ 716,547
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	75,257	73,550
Bad debt expense	2,402	9,915
Net unrealized gain (losses) on investments	651,310	(225,821)
Change in value of split-interest agreements	322,479	143,470
Changes in operating assets and liabilities:		
Accounts receivable	(468,035)	(367,148)
Prepaid expenses and other assets	3,843	(64,335)
Inventory of publications held for sale	(181,034)	(35,327)
Accounts payable and accrued expenses	549,757	113,040
Deferred income	(119,090)	175,922
Royalties payable	(25,750)	5,651
Net cash provided by operating activities	784,181	545,464
Cash flow from investing activities:		
Reinvested investment gains and income	1,557,290	1,021,794
Purchase of property and equipment	(44,839)	(21,631)
Payments of trust obligations	(573,834)	(422,333)
Proceeds from sale of investments	7,572,382	2,203,047
Purchase of investments	(9,144,934)	(3,491,293)
Contributions restricted for investment	(72,500)	-
Net cash used in investing activities	(706,435)	(710,416)
Net increase (decrease) in cash and cash equivalents	77,746	(164,952)
Cash and cash equivalents, beginning of year	331,167	496,119
Cash and cash equivalents, end of year	<u>\$ 408,913</u>	<u>\$ 331,167</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 Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

New Accounting Pronouncement

For the year ended June 30, 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

Liquidity

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in investment accounts. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and marketable equity securities. The Organization submits grant or contract payment requests as the expenditures are incurred and are allowable per grant or contract terms.

Availability of Resources

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing services, as well as the Organization's improving the quality of programs or to support those activities, to be general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient publication revenue, membership dues, and contributions to cover general expenditures. Refer to the statement of cash flows, which identifies the sources of the Organization's cash and shows positive cash generated by operations for fiscal years 2019 and 2018.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Availability of Resources (continued)

	2019	2018
Cash and cash equivalents	\$ 408,913	\$ 331,167
Accounts receivable - publishing, net	1,372,383	906,750
Prepaid expenses	326,934	268,930
Inventory of publications held for sale, net	715,795	534,761
Other assets	17,458	79,305
Investments	13,714,261	14,239,724
Total financial assets	16,555,744	16,360,637
Net assets with donor restrictions	(2,535,229)	(3,005,383)
Quasi endowment established by the board	(1,577,073)	(1,463,780)
Financial assets available to meet general expenditures over the next twelve months	\$ 12,443,442	\$ 11,891,474

Classification of Net Assets

The net assets of the Organization have been classified as without restriction or with restriction on the basis of the existence and/or nature of any donor imposed restrictions. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with restrictions are reclassified to net assets without restriction and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions and net assets without restriction.

A summary of the net asset reclassification driven by the adoption of ASU 2016-14 as of June 30, 2018 is presented below:

Net asset classifications	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	\$ 10,139,161	\$ -	\$ 10,139,161
Temporarily restricted	568,920	676,077	1,244,997
Permanently restricted	-	2,329,306	2,329,306
Net assets as reclassified at June 30, 2018	\$ 10,708,081	\$ 3,005,383	\$ 13,713,464
Net restatement due to early implementation of ASU 2014-09	\$ (285,552)	\$ -	\$ (285,552)
Net assets as reclassified at June 30, 2018, including ASU 2014-09 restatement	\$ 10,422,529	\$ 3,005,383	\$ 13,427,912

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

The Organization utilizes the following net asset categories:

Without Donor Restrictions:

Consists of publishing revenue, membership dues, investment income and development earned that are available for the Organization's general use. This also consists of investments designated by the Organization's Board of Directors for operational use.

With Donor Restrictions:

Consists of contributions that have been subject to specific donor imposed restrictions for use. Net assets with donor restrictions were approximately \$2,535,229 and \$3,005,383 at June 30, 2019 and 2018, respectively. Net assets with donor restrictions include funds functioning as an endowment in addition to funds restricted for purpose or time designations.

Revenue from Contracts with Customers

In May 2014, the FASB issued a new standard related to revenue recognition, ASU 2014-09, *Revenue from Contracts with Customers*. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The standard will be effective for the year beginning July 1, 2019, with early adoption permitted. The Organization elected to early adopt the revenue standard for the year ended June 30, 2019 using the full retrospective method.

The most significant impact of the standard relates to the accounting for membership agreements with customers and the News For You subscription agreements. The Organization identified the appropriate deliverables for membership and the subscriptions included in publishing revenue, as well as the length of time of each service provided. Memberships are amortized over a year and the subscription agreements are amortized based on the length of subscription obtained. The following tables reflect the impact of ASU 2014-09 on the Statements of Financial Position and Statements of Activities as of June 30, 2018:

	June 30, 2018		
	As Previously Reported	ASU 2014-09 Adjustment	June 30, 2018 As Restated
Statements of Financial Position			
<i>Liabilities:</i>			
Deferred revenue	\$ 577,137	\$ 285,552	\$ 862,689
<i>Net assets - ending</i>	13,713,464	(285,552)	13,427,912
Statements of Activities:			
Publishing revenue	6,954,881	15,227	6,970,108
Membership	119,394	(10,445)	108,949
Net Income	711,765	4,782	716,547

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 net assets without donor restrictions. A loss, realized or unrealized, is recorded as a decrease in net assets without donor restrictions. If donor restrictions do exist on the use of an investment, the gain or loss is shown as an increase or decrease in net assets with donor restrictions. Investment income (i.e., interest and dividends) earned during the year is reported as an increase in net assets without donor restrictions, unless the income's use is donor restricted; in that case, net assets without donor restrictions are increased.

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, 2019 and 2018, 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.

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.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Endowments (continued)

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 or depreciation of endowment assets as net assets with donor restrictions or net assets without donor restrictions, based on the existence or absence of donor-imposed restrictions. When funds are considered to have a donor-imposed restriction, they are included in net assets with donor restriction until the funds are appropriated for spending, when they are moved to net assets without donor restrictions. 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 2019 and 2018, the Organization has set the annual spending rate of 5% of Board Designated Funds. The activity in the endowment funds is shown in the Statement of Activities. During 2019 and 2018, approximately \$427,000 and \$200,000 was appropriated for expenditure, respectively. The five percent appropriated for expenditure during 2019 was used for research, publications, and budgeting, while the amount appropriated in 2018 was used for publications.

Split Interest Agreements

The Organization is the beneficiary of trusts, annuities and pooled income funds. The Organization'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 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 \$8,500 and \$26,000 at June 30, 2019 and 2018, respectively.

During 2019 and 2018, the Organization recognized bad debt expense of approximately \$2,400 and \$10,000, respectively. Bad debt expense during the 2019 and 2018 fiscal years are the result of uncollectible receivables related to sales.

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, 2019 and 2018, no provision for UBIT has been included in the Statements of Activities.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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, 2019 and 2018, 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 net assets with donor restrictions or without donor restrictions. Contributions of long-lived assets received without donor stipulations about how long the asset must be used, are recorded at fair value as net assets without donor restriction. Net assets with donor restrictions are reclassified to net assets without donor restriction upon satisfaction of time or purpose restrictions.

The Organization reports gifts, cash and other assets as net assets with donor restrictions if they are received with donor stipulations, which 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 restriction are reclassified to net assets without donor restriction 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 net assets without donor restriction if the restriction expires in the same reporting period.

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, 2019 and 2018.

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, 2019 and 2018, 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, 2019 and 2018.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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, 2019 or 2018 were \$96,335 and \$83,648, respectively. The Organization also sponsors a 403(b) plan, which provides for employee contributions and discretionary employer matching contributions.

Methods Used for Allocation of Expenses between Program and Supporting Services

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, 2019 and 2018 have been calculated as the percentage of total administrative costs to total costs. Certain costs have been allocated among the programs benefited, based on management's estimate of time spent, occupancy or usage. Costs specifically identified to a program are charged directly to that program where possible.

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.

PROLITERACY WORLDWIDE
Notes to Financial Statements

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.

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, 2019:

Description	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual funds				
Fixed Income	\$ 3,056,868	\$ 3,056,868	\$ -	\$ -
Domestic Equity	4,741,727	4,741,727	-	-
International Equity	2,770,908	2,770,908	-	-
Developing Markets	1,514,848	1,514,848	-	-
Infrastructure	188,089	188,089	-	-
Natural Resources	780,521	780,521	-	-
Real Estate	197,352	197,352	-	-
Miscellaneous	52,664	52,664	-	-
Total mutual funds	13,302,977	13,302,977	-	-
Cash and cash equivalents	411,284	411,284	-	-
	\$ 13,714,261	\$ 13,714,261	\$ -	\$ -

PROLITERACY WORLDWIDE
Notes to Financial Statements

2. Fair Value Measurement

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	\$ -	\$ -

3. Investments

Investments are classified in the following categories at June 30:

		2019	2018
Unrestricted funds	(a) \$	3,442,532	\$ 3,939,144
Board Designated	(a)	6,454,861	6,237,454
Annuities life	(b)	347,122	359,934
Life income funds	(c)	171,581	225,673
Irrevocable trusts	(d)	1,721,092	2,013,739
Quasi-endowment funds	(e)	1,577,073	1,463,780
	\$	13,714,261	\$ 14,239,724

(a) Unrestricted and Board Designated 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

(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 \$206,000 and \$213,000 at June 30, 2019 and 2018, respectively. The Organization met these requirements in both fiscal years and these funds are classified as net assets with donor restrictions.

(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 net assets with donor restrictions.

(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 net assets with donor restrictions.

(e) Quasi-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 net assets without donor restrictions 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 net assets without donor restrictions.

PROLITERACY WORLDWIDE
Notes to Financial Statements

4. Investment Return

The following schedule summarizes investment return and classification in the Statement of Activities for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment income	\$ 228,190	\$ 110,916	\$ 339,106
Realized Gain (Loss)	625,467	304,764	930,231
Total Realized & Interest	853,657	415,680	1,269,337
Unrealized Gain (Loss)	(606,159)	(45,151)	(651,310)
Total Gain (Loss)	\$ 247,498	\$ 370,529	618,027
Less - Board approved investment spending			(427,336)
Investment earnings - net gain			\$ 190,691

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

	Without Donor Restrictions	With Donor Restrictions	Total
Investment income	\$ 251,445	\$ 76,018	\$ 327,463
Realized gain	404,677	286,901	691,578
Total Realized & Interest	656,122	362,919	1,019,041
Unrealized gain (loss)	280,978	(55,157)	225,821
Total Gain (Loss)	\$ 937,100	\$ 307,762	1,244,862
Less - Board approved investment spending			(200,000)
Investment earnings - net gain			\$ 1,044,862

The change in value of split interest trusts for 2019 and 2018 was \$322,479 and \$143,471. These changes are due to increases or decreases in trust donations, as well as market performance.

5. Property and Equipment

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

	2019	2018
Furniture and office equipment	\$ 1,360,524	\$ 1,315,685
Less accumulated depreciation	(1,208,949)	(1,133,692)
	\$ 151,575	\$ 181,993

For the years ended June 30, 2019 and 2018, depreciation expense totaled \$75,257 and \$76,340, respectively.

PROLITERACY WORLDWIDE
Notes to Financial Statements

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, 2019 and 2018, various discount rates and life expectancy tables.

Split interest agreements consisted of the following at June 30, 2019:

	Investments at Fair Market Value	Reserve	Net
Life income funds	\$ 171,581	\$ 6,706	\$ 164,875
Irrevocable trusts	1,721,092	1,216,890	504,202
Annuities	347,122	206,662	140,460
	<u>\$ 2,239,795</u>	<u>\$ 1,430,258</u>	<u>\$ 809,537</u>

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	359,934	213,230	146,704
	<u>\$ 2,599,346</u>	<u>\$ 1,643,528</u>	<u>\$ 955,818</u>

7. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30:

	2019	2018
Annuity, PLIFs, and Trust agreements	\$ 940,200	\$ 1,444,509
Dollar General Literacy Foundation	-	1,796
Bible project (Colvin)	1,956	1,956
Mobile Learning Fund	1,000	-
International programs	-	1,046
National Book Fund	-	92,296
Professional Development	15,000	-
	<u>958,156</u>	<u>1,541,603</u>
Quasi-endowments	1,577,073	1,463,780
Total Net Assets with Donor Restrictions	<u>\$ 2,535,229</u>	<u>\$ 3,005,383</u>

PROLITERACY WORLDWIDE
Notes to Financial Statements

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:

	<u>2019</u>	<u>2018</u>
Dollar General programs	\$ 1,796	\$ 389,507
Pitney Bowes	-	120,203
United Methodist Women	-	4,000
National Book Fund	146,000	-
Trust agreements	386,408	154,228
	<u>\$ 534,204</u>	<u>\$ 667,938</u>

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 2019 and 2018 was approximately \$63,000.

The Organization is committed under an operating agreement for copiers. The lease term is five years commencing on May 1, 2017 and ending on April 30, 2022. 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 2019 and 2018 was \$306,435.

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

Fiscal year ending,	
2020	\$ 384,370
2021	384,370
2022	<u>351,135</u>
	<u>\$ 1,119,875</u>

PROLITERACY WORLDWIDE
Notes to Financial Statements

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 17, 2019, the date the financial statements were available to be issued.

Beginning in the 2020 fiscal year, the Organization's employer retirement contribution will be 2% for each pay period, as well as the possibility of up to a 2% additional contribution will be made for the plan year, per board approval. There were no other 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, 2019 and 2018

2019			
Program Services	Fundraising	Management	Rate
(a)	(b)	(c)	(c)/(a+b+c)
\$ 7,946,922	\$ 504,661	\$ 1,608,926	15.99%
(a) Program services			<u>\$ 7,946,922</u>
(b) Fundraising			<u>\$ 504,661</u>
(c) Management			<u>\$ 1,608,926</u>
2018			
Program Services	Fundraising	Management	Rate
(a)	(b)	(c)	(c)/(a+b+c)
\$ 7,066,121	\$ 426,577	\$ 1,909,617	20.31%
(a) Program services			<u>\$ 7,066,121</u>
(b) Fundraising			<u>\$ 426,577</u>
(c) Management			<u>\$ 1,909,617</u>