

PROLITERACY WORLDWIDE

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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 22 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 22, 2020

PROLITERACY WORLDWIDE, INC.
Statements of Financial Position

ASSETS:	June 30,	
	2020	2019
Cash and cash equivalents	\$ 417,146	\$ 408,913
Accounts receivable - publishing, net	1,311,970	1,372,383
Prepaid expenses	306,149	326,934
Inventory of publications held for sale, net	995,234	715,795
Other assets	21,508	17,458
Investments	12,890,905	13,714,261
Property and equipment, net	116,885	151,575
TOTAL ASSETS	\$ 16,059,797	\$ 16,707,319
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 803,769	\$ 999,357
Royalties payable	107,008	133,152
Deferred revenue	657,153	743,598
Reserve for split-interest trusts	1,319,981	1,430,258
Paycheck Protection Program loan payable	538,000	-
TOTAL LIABILITIES	3,425,911	3,306,365
NET ASSETS:		
Without donor restrictions	10,021,707	10,865,725
With donor restrictions	2,612,179	2,535,229
TOTAL NET ASSETS	12,633,886	13,400,954
TOTAL LIABILITIES AND NET ASSETS	\$ 16,059,797	\$ 16,707,319

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES:			
Support:			
Grants - foundation and corporate Contributions	\$ 785,983	\$ -	\$ 785,983
Contributions	348,088	238,406	586,494
Legacies & bequests	5	-	5
Program services revenue:			
Publications	7,564,413	-	7,564,413
Membership dues	139,629	-	139,629
Conference income	472,590	-	472,590
Training and accreditation	20,033	-	20,033
Board approved investment spending	503,779	-	503,779
Other income	15,344	-	15,344
	<u>9,849,864</u>	<u>238,406</u>	<u>10,088,270</u>
Net assets released from restrictions	230,350	(230,350)	-
Total operating revenues	<u>\$ 10,080,214</u>	<u>\$ 8,056</u>	<u>\$ 10,088,270</u>
EXPENSES AND LOSSES:			
Operating expenses:			
Program and program services	\$ 8,354,920	\$ -	\$ 8,354,920
Management	1,689,401	-	1,689,401
Fundraising	543,311	-	543,311
Total program and support services expenses	<u>10,587,632</u>	<u>-</u>	<u>10,587,632</u>
Bad debt expense	-	-	-
Total operating expenses	<u>10,587,632</u>	<u>-</u>	<u>10,587,632</u>
Non-operating activities:			
Change in value of split interest trusts	26,602	-	26,602
Investment earnings	309,998	(68,894)	241,104
Increase (decrease) from non-operating activities	10,924,232	(68,894)	10,855,338
Changes in net assets	(844,018)	76,950	(767,068)
Net assets, beginning	<u>10,865,725</u>	<u>2,535,229</u>	<u>13,400,954</u>
Net assets, ending	<u>\$ 10,021,707</u>	<u>\$ 2,612,179</u>	<u>\$ 12,633,886</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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING REVENUES:			
Support:			
Grants - foundation and corporate Contributions	\$ 612,704	\$ -	\$ 612,704
Legacies & bequests	933,505	16,000	949,505
	179,700	-	179,700
Program services revenue:			
Publications	7,805,261	-	7,805,261
Membership dues	137,782	-	137,782
Training and accreditation	37,107	-	37,107
Board approved investment spending	427,336	-	427,336
Other income	18,346	-	18,346
	<u>10,151,741</u>	<u>16,000</u>	<u>10,167,741</u>
Net assets released from restrictions	<u>534,204</u>	<u>(534,204)</u>	<u>-</u>
Total operating revenues	<u>\$ 10,685,945</u>	<u>\$ (518,204)</u>	<u>\$ 10,167,741</u>
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	<u>10,060,509</u>	<u>-</u>	<u>10,060,509</u>
Bad debt expense	<u>2,402</u>	<u>-</u>	<u>2,402</u>
Total operating expenses	<u>10,062,911</u>	<u>-</u>	<u>10,062,911</u>
Non-operating activities:			
Change in value of split interest trusts	-	322,479	322,479
Investment earnings	<u>179,838</u>	<u>(370,529)</u>	<u>(190,691)</u>
Increase (decrease) from non-operating activities	10,242,749	(48,050)	10,194,699
Changes in net assets	443,196	(470,154)	(26,958)
Net assets, beginning (as restated)	<u>10,422,529</u>	<u>3,005,383</u>	<u>13,427,912</u>
Net assets, ending	<u>\$ 10,865,725</u>	<u>\$ 2,535,229</u>	<u>\$ 13,400,954</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, 2020

	Program and Program Services			Support Services			Total Expenses
	Program and Professional Services	Publishing	Total Programs	Management	Fundraising	Total Support	
Salaries and related expenses:							
Salaries	\$ 566,240	\$ 1,318,011	\$ 1,884,251	\$ 742,369	\$ 312,164	\$ 1,054,533	\$ 2,938,784
Employee benefits	57,197	148,181	205,378	125,846	43,373	169,219	374,597
Payroll taxes	39,976	77,878	117,854	60,174	21,639	81,813	199,667
Total salaries and related expenses	663,413	1,544,070	2,207,483	928,389	377,176	1,305,565	3,513,048
Other operating expenses:							
Grants and allocations	199,451	-	199,451	-	-	-	199,451
Consultants and professional fees	273,826	1,607,602	1,881,428	339,801	75,864	415,665	2,297,093
Supplies	15,510	19,577	35,087	23,138	1,057	24,195	59,282
Telephone and communications	16,592	18,337	34,929	15,894	1,391	17,285	52,214
Postage, delivery and shipping	13,736	383,168	396,904	2,135	6,067	8,202	405,106
Occupancy and related costs	175,730	465,624	641,354	274,607	29,126	303,733	945,087
Printing and publications	81,935	2,377,081	2,459,016	5,794	15,827	21,621	2,480,637
Travel, conferences, conventions	332,382	126,775	459,157	80,331	36,803	117,134	576,291
Depreciation	13,370	26,741	40,111	19,312	-	19,312	59,423
Total other operating expenses	1,122,532	5,024,905	6,147,437	761,012	166,135	927,147	7,074,584
Total program and support services expenses	1,785,945	6,568,975	8,354,920	1,689,401	543,311	2,232,712	10,587,632
Bad debt expense	-	-	-	-	-	-	-
Total operating expenses	\$ 1,785,945	\$ 6,568,975	\$ 8,354,920	\$ 1,689,401	\$ 543,311	\$ 2,232,712	\$ 10,587,632

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	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.
Statements of Cash Flows

	Years ended June 30,	
	2020	2019
Cash flow from operating activities:		
Change in net assets	\$ (767,068)	\$ (26,958)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	59,423	75,257
Bad debt expense	-	2,402
Net unrealized gain (losses) on investments	(443,271)	651,310
Change in value of split-interest agreements	26,602	322,479
Changes in operating assets and liabilities:		
Accounts receivable	60,413	(468,035)
Prepaid expenses and other assets	16,735	3,843
Inventory of publications held for sale	(279,439)	(181,034)
Accounts payable and accrued expenses	(195,588)	549,758
Deferred income	(86,445)	(119,091)
Royalties payable	(26,144)	(25,750)
Net cash (used in) provided by operating activities	(1,634,782)	784,181
Cash flow from investing activities:		
Reinvested investment gains and income	1,501,270	1,557,290
Purchase of property and equipment	(24,733)	(44,839)
Payments of trust obligations	(267,336)	(573,834)
Proceeds from sale of investments	4,426,737	7,572,382
Purchase of investments	(4,505,923)	(9,144,934)
Contributions restricted for investment	(25,000)	(72,500)
Net cash provided by (used in) investing activities	1,105,015	(706,435)
Cash flow from financing activities:		
Proceeds from Paycheck Protection Program loan	538,000	-
Net increase in cash and cash equivalents	8,233	77,746
Cash and cash equivalents, beginning of year	408,913	331,167
Cash and cash equivalents, end of year	\$ 417,146	\$ 408,913

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 ("the Organization") is an educational organization that champions the power of literacy through its programs and publications, training and professional development services, research, and advocacy. The Organization 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.

Classification of Net Assets

The net assets have been classified as without donor restriction or with donor restriction based on 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 donor restrictions are reclassified to net assets without donor 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 donor restriction. 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 \$2,612,179 and \$2,535,229 at June 30, 2020 and 2019, respectively. Net assets with donor restrictions include funds functioning as an endowment in addition to funds restricted for purpose or time designations.

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.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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 of 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 2020 and 2019.

	2020	2019
Cash and cash equivalents	\$ 417,146	\$ 408,913
Accounts receivable - publishing, net	1,311,970	1,372,383
Inventory of publications held for sale, net	995,234	715,795
Other assets	21,508	17,458
Investments	12,890,905	13,714,261
Total financial assets	15,636,763	16,228,810
Net assets with donor restrictions	(2,612,179)	(2,535,229)
Quasi endowment established by the board	(1,599,090)	(1,577,073)
Financial assets available to meet general expenditures over the next twelve months	\$ 11,425,494	\$ 12,116,508

Revenue from Contracts with Customers

The Organization adopted FASB ASU 2014-09, *Revenue from Contracts with Customers*, on July 1, 2019. The ASU provides new revenue recognition that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled to in exchanges for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. 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. The financial statements reflect the implementation of this standard.

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.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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 revenues in the Statement of Activities. Unrealized gains and losses have been classified in non-operating activities 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, 2020 and 2019, 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, which range between three and ten years for most computer equipment, furniture, and office equipment. Certain office improvements are depreciated over fifteen years. 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 accordance with the New York Prudent Management of Institutional Funds Act (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, at which time 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 maintaining such purchasing power.

For 2020 and 2019, 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 2020 and 2019, approximately \$504,000 and \$427,000 was appropriated for expenditure, respectively. The five percent appropriated for expenditure during 2020 and 2019 was used for research, publications, and budgeting.

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 \$5,400 and \$8,500 at June 30, 2020 and 2019, respectively. The Organization recognized no bad debt expense during 2020 and approximately \$2,400 during 2019. Bad debt expense during the 2019 was 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 the Organization's mission, goals and objectives and therefore not subjected to unrelated business income tax (UBIT). For the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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. Grants are provided by foundation and corporate agencies and recognized as allowable expenditures are incurred. 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, 2020 and 2019.

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, 2020 and 2019, 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 and the performance obligation is satisfied once the product is delivered. 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, 2020 and 2019.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition and Contributions (continued)

Membership dues are amortized over a year and the subscription agreements are amortized based on the length of subscription obtained. Conference fees are recognized when earned upon completion of the conference.

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 sponsors this 403(b) plan, which provides for employee contributions and discretionary employer matching contributions. The Organization's employer retirement contribution is 2% for each pay period, as well as an additional discretionary contribution of up to 2% for the plan year, per board approval. The amount contributed by the Organization will be equal to the amount contributed by the employee, with a maximum match of 4%. Employer retirement contributions for the years ended June 30, 2020 or 2019 were \$45,822 and \$96,335, respectively.

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, 2020 and 2019 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.

PROLITERACY WORLDWIDE
Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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.

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.

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, 2020:

Description	Assets		Fair Value Hierarchy Level			
	Measured at Fair Value		Level 1	Level 2	Level 3	
Mutual funds						
Fixed Income	\$	3,330,314	\$	3,330,314	\$	-
Domestic Equity		4,591,888		4,591,888		-
International Equity		2,560,010		2,560,010		-
Developing Markets		872,456		872,456		-
Infrastructure		307,930		307,930		-
Natural Resources		633,509		633,509		-
Real Estate		228,871		228,871		-
Miscellaneous		3,905		3,905		-
Total mutual funds		12,528,883		12,528,883		-
Cash and cash equivalents		362,022		362,022		-
	\$	12,890,905	\$	12,890,905	\$	-

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		Fair Value Hierarchy Level			
	Measured at Fair Value		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

3. Investments

Investments are classified in the following categories at June 30:

		2020	2019
Unrestricted funds	(a)	\$ 3,119,223	\$ 3,442,532
Board Designated	(a)	6,178,396	6,454,861
Annuities life	(b)	316,509	347,122
Life income funds	(c)	143,604	171,581
Irrevocable trusts	(d)	1,534,083	1,721,092
Quasi-endowment funds	(e)	1,599,090	1,577,073
		\$ 12,890,905	\$ 13,714,261

(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.

(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 \$187,000 and \$206,000 at June 30, 2020 and 2019, 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

The Organization 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.

PROLITERACY WORLDWIDE
Notes to Financial Statements

3. Investments (continued)

(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.

4. Investment Return

The following schedule summarizes investment return and classification in the Statement of Activities for the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment income	\$ 273,508	\$ 98,313	\$ 371,821
Realized Gain	185,243	148,882	334,125
Total Realized & Interest	458,751	247,195	705,946
Unrealized Loss	(264,970)	(178,301)	(443,271)
Total Gain	<u>\$ 193,781</u>	<u>\$ 68,894</u>	262,675
Less - Board approved investment spending			(503,779)
Investment earnings - net loss			<u>\$ (241,104)</u>

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	625,467	304,764	930,231
Total Realized & Interest	853,657	415,680	1,269,337
Unrealized Loss	(606,159)	(45,151)	(651,310)
Total Gain	<u>\$ 247,498</u>	<u>\$ 370,529</u>	618,027
Less - Board approved investment spending			(427,336)
Investment earnings - net gain			<u>\$ 190,691</u>

The change in value of split interest trusts for 2020 and 2019 was \$26,602 and \$322,479. These changes are due to increases or decreases in trust donations, as well as market performance.

PROLITERACY WORLDWIDE
Notes to Financial Statements

5. Property and Equipment

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

	2020	2019
Furniture and office equipment	\$ 1,383,635	\$ 1,360,524
Less accumulated depreciation	(1,266,750)	(1,208,949)
	<u>\$ 116,885</u>	<u>\$ 151,575</u>

For the years ended June 30, 2020 and 2019, depreciation expense totaled \$59,423 and \$75,257, respectively.

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, 2020 and 2019, various discount rates and life expectancy tables.

Split interest agreements consisted of the following at June 30, 2020:

	Investments at Fair Market		
	Value	Reserve	Net
Life income funds	\$ 143,604	\$ 6,706	\$ 136,898
Irrevocable trusts	1,534,083	\$ 1,126,221	407,862
Annuities	316,509	\$ 187,054	129,455
	<u>\$ 1,994,196</u>	<u>\$ 1,319,981</u>	<u>\$ 674,215</u>

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 life	347,122	206,662	140,460
	<u>\$ 2,239,795</u>	<u>\$ 1,430,258</u>	<u>\$ 809,537</u>

PROLITERACY WORLDWIDE
Notes to Financial Statements

7. Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Annuity, PLIFs, and Trust agreements	\$ 987,077	\$ 940,200
Bible project (Colvin)	1,956	1,956
Mobile Learning Fund	14,522	1,000
National Book Fund	9,534	-
Professional Development	-	15,000
	<u>1,013,089</u>	<u>958,156</u>
Quasi-endowments	1,599,090	1,577,073
Total Net Assets with Donor Restrictions	<u>\$ 2,612,179</u>	<u>\$ 2,535,229</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:

	<u>2020</u>	<u>2019</u>
Trust agreements	\$ -	\$ 386,408
Dollar General Literacy Foundation	-	1,796
Mobile Learning Fund	60,293	-
National Book Fund	155,057	146,000
Professional Development	15,000	-
	<u>\$ 230,350</u>	<u>\$ 534,204</u>

9. Paycheck Protection Program Loan

On April 16, 2020, the Organization was granted a loan from NBT Bank of \$538,000 through the Small Business Association, pursuant to the Paycheck Protection Program (the PPP) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was enacted March 27, 2020. The PPP provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loan matures on April 16, 2022 and bears interest at a rate of 1%, payable monthly commencing November 16, 2020.

Under the terms of the PPP, the loan balance can be fully or partially forgiven based on the use of the funds, maintenance of its personnel complement, and compliance with certain reporting elements to the bank in accordance with the requirements of the PPP Program. Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of principal and interest payments for the first six months. The Organization estimates that it has administered the proceeds of its PPP arrangement and managed its personnel complement in a manner that will meet the conditions for forgiveness; however, the application for forgiveness has not yet been approved and therefore, the balance has been recognized as a liability at June 30, 2020.

PROLITERACY WORLDWIDE
Notes to Financial Statements

9. Paycheck Protection Program Loan (continued)

Loan maturities at June 30, 2020 are as follows:

2021	\$	239,100
2022		<u>298,900</u>
	\$	<u>538,000</u>

10. Operating Leases

The Organization is committed under an operating agreement for warehouse space. The lease term ends on May 31, 2022. Rental expense for the warehouse during 2020 and 2019 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 2020 and 2019 was \$306,435. Future minimum rental payments on the Organization's operating leases are as follows for the fiscal year ending:

2021	\$	384,370
2022		<u>351,135</u>
	\$	<u>735,505</u>

11. 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, the Organization has amounts on deposit with this one financial institution in excess of the amounts insured by the FDIC. Additionally, the Organization 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.

12. Subsequent Events

The Organization has evaluated subsequent events through October 22, 2020, which is the date the financial statements were available to be issued. The coronavirus that causes COVID-19 surfaced in December 2019 and early 2020. The spread of this virus globally throughout 2020 has caused business disruption domestically in the United States, the area in which the Organization primarily operates. While the disruption is expected to be temporary, there is considerable uncertainty around the duration of this pandemic. The extent of the financial impact and duration of this matter, including the results of operations or cash flows, cannot be reasonably estimated at this time. 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, 2020 and 2019

2020			
Program Services (a)	Fundraising (b)	Management (c)	Rate (c)/(a+b+c)
\$ 8,354,920	\$ 543,311	\$ 1,689,401	15.96%
(a) Program services			<u>\$ 8,354,920</u>
(b) Fundraising			<u>\$ 543,311</u>
(c) Management			<u>\$ 1,689,401</u>
2019			
Program Services (a)	Fundraising (b)	Management (c)	Rate (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>