

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

AUDITED FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021



Literacy Council
of Northern Virginia

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.

TABLE OF CONTENTS

	Page
Report of Independent Auditors	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to the Financial Statements	9-19

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Literacy Council of Northern Virginia, Inc.
Falls Church, Virginia

Opinion

We have audited the accompanying financial statements of the Literacy Council of Northern Virginia, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Literacy Council of Northern Virginia, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Literacy Council of Northern Virginia, Inc. (the Council) and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Council's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

UHY LLP

Columbia, Maryland
November 14, 2022

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 227,201	\$ 327,396
Contributions and grants receivable	124,211	100,623
Accounts receivable	627	1,400
Inventory	-	59,968
Prepaid expenses	10,043	3,317
Contributed rent receivable	-	81,000
Investments	719,803	726,353
	<u>1,081,885</u>	<u>1,300,057</u>
Total current assets	1,081,885	1,300,057
PROPERTY AND EQUIPMENT, NET	<u>8,785</u>	<u>5,507</u>
Total assets	<u>\$ 1,090,670</u>	<u>\$ 1,305,564</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 15,151	\$ 14,763
Accrued payroll	14,672	7,633
Accrued vacation	31,032	30,040
Refundable advance	-	185,900
	<u>60,855</u>	<u>238,336</u>
Total current liabilities	60,855	238,336
NET ASSETS		
Without donor restrictions	1,029,815	966,228
With donor restrictions	-	101,000
	<u>1,029,815</u>	<u>1,067,228</u>
Total net assets	1,029,815	1,067,228
Total liabilities and net assets	<u>\$ 1,090,670</u>	<u>\$ 1,305,564</u>

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	\$ 516,344	\$ 462,147	\$ 978,491
Grant revenue	-	110,110	110,110
Contributed services	598,064	-	598,064
Workshop and student fees	145,350	-	145,350
Special fundraising events	94,106	-	94,106
Paycheck Protection Program grant	166,738	-	166,738
Investment losses, net	(106,054)	-	(106,054)
Net assets released from restrictions:			
Satisfaction of donor restrictions	673,257	(673,257)	-
	<u>2,087,805</u>	<u>(101,000)</u>	<u>1,986,805</u>
Total support and revenue			
Expenses			
Program services:			
Distance learning	8,059	-	8,059
Destination workforce	199,416	-	199,416
English language learners basic literacy	595,710	-	595,710
Family learning	47,522	-	47,522
Other program services	810,070	-	810,070
	<u>1,660,777</u>	<u>-</u>	<u>1,660,777</u>
Total program services			
Support services:			
Management and general	212,425	-	212,425
Fundraising	151,016	-	151,016
	<u>363,441</u>	<u>-</u>	<u>363,441</u>
Total support services			
Total expenses	<u>2,024,218</u>	<u>-</u>	<u>2,024,218</u>
Change in Net Assets	63,587	(101,000)	(37,413)
Net assets, beginning of year	<u>966,228</u>	<u>101,000</u>	<u>1,067,228</u>
Net assets, end of year	<u>\$ 1,029,815</u>	<u>\$ -</u>	<u>\$ 1,029,815</u>

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	\$ 597,845	\$ 333,983	\$ 931,828
Grant revenue	23,457	111,653	135,110
Contributed services	465,146	-	465,146
Workshop and student fees	84,253	-	84,253
Special fundraising events	80,859	-	80,859
Paycheck protection program grant	160,600	-	160,600
Investment income, net	157,321	-	157,321
Net assets released from restrictions:			
Satisfaction of donor restrictions	516,481	(516,481)	-
	<u>2,085,962</u>	<u>(70,845)</u>	<u>2,015,117</u>
Total support and revenue			
Expenses			
Program services:			
Distance learning	58,930	-	58,930
Destination workforce	179,477	-	179,477
English language learners basic literacy	454,437	-	454,437
Family learning	46,669	-	46,669
Other program services	592,125	-	592,125
	<u>1,331,638</u>	<u>-</u>	<u>1,331,638</u>
Total program services			
Support services:			
Management and general	210,799	-	210,799
Fundraising	128,084	-	128,084
	<u>338,883</u>	<u>-</u>	<u>338,883</u>
Total support services			
Total expenses	<u>1,670,521</u>	<u>-</u>	<u>1,670,521</u>
Change in Net Assets	415,441	(70,845)	344,596
Net assets, beginning of year	<u>550,787</u>	<u>171,845</u>	<u>722,632</u>
Net assets, end of year	<u>\$ 966,228</u>	<u>\$ 101,000</u>	<u>\$ 1,067,228</u>

See notes to financial statements.

LITERACY COUNCIL OF NORTHERN VIRGINIA INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2022

	Distance Learning	Destination Workforce	English Language Learners Basic Literacy	Family Learning	Other Program Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Salaries	\$ 3,591	\$ 118,494	\$ 87,010	\$ 26,318	\$ 467,773	\$ 703,186	\$ 121,825	\$ 94,896	\$ 216,721	\$ 919,907
Payroll taxes	272	9,030	6,599	2,010	35,685	53,596	9,298	7,220	16,518	70,114
Employee benefits	376	10,238	7,800	2,274	39,998	60,686	10,752	8,186	18,938	79,624
Refund for payroll taxes	-	-	-	-	-	-	(34,624)	-	(34,624)	(34,624)
	4,239	137,762	101,409	30,602	543,456	817,468	107,251	110,302	217,553	1,035,021
Depreciation and amortization	15	555	405	125	1,789	2,889	572	450	1,022	3,911
Dues and memberships	-	-	-	-	702	702	275	50	325	1,027
Employee relations	44	970	2,071	202	4,519	7,806	3,740	1,131	4,871	12,677
Facilities - donated	332	10,781	7,936	2,395	42,530	63,974	8,394	8,632	17,026	81,000
In-kind volunteer tutoring and services	-	10,048	369,081	5,256	182,341	566,726	31,338	-	31,338	598,064
Insurance	10	472	321	100	1,894	2,797	485	388	873	3,670
Miscellaneous	11	416	1,676	96	1,589	3,788	834	2,063	2,897	6,685
Postage and shipping	5	470	3,521	370	1,182	5,548	582	1,793	2,375	7,923
Printing and publications	48	732	911	144	4,351	6,186	12	3,192	3,204	9,390
Professional fees	72	29,475	1,791	551	11,693	43,582	34,465	6,349	40,814	84,396
Program books and supplies	37	4,602	102,017	4,895	640	112,191	2,604	226	2,830	115,021
Rental facilities	-	-	-	1,875	-	1,875	-	11,969	11,969	13,844
Repairs and maintenance	15	241	206	55	955	1,472	2,917	171	3,088	4,560
Supplies	3,190	1,845	3,413	585	7,941	16,974	13,253	3,346	16,599	33,573
Telephone	28	418	434	95	1,758	2,733	5,177	336	5,513	8,246
Travel	13	629	518	176	2,730	4,066	526	618	1,144	5,210
Total expenses	<u>\$ 8,059</u>	<u>\$ 199,416</u>	<u>\$ 595,710</u>	<u>\$ 47,522</u>	<u>\$ 810,070</u>	<u>\$ 1,660,777</u>	<u>\$ 212,425</u>	<u>\$ 151,016</u>	<u>\$ 363,441</u>	<u>\$ 2,024,218</u>

LITERACY COUNCIL OF NORTHERN VIRGINIA INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2021

	Distance Learning	Destination Workforce	English Language Learners Basic Literacy	Family Learning	Other Program Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Salaries	\$ 44,918	\$ 95,130	\$ 108,011	\$ 26,069	\$ 334,600	\$ 608,728	\$ 109,879	\$ 90,120	\$ 199,999	\$ 808,727
Payroll taxes	2,766	7,011	7,996	1,924	24,195	43,892	12,829	6,538	19,367	63,259
Employee benefits	4,708	11,847	13,646	3,277	40,943	74,421	13,825	11,059	24,884	99,305
	52,392	113,988	129,653	31,270	399,738	727,041	136,533	107,717	244,250	971,291
Depreciation and amortization	250	534	637	144	1,930	3,495	628	527	1,155	4,650
Dues and memberships	6	23	30	10	589	658	167	943	1,110	1,768
Employee relations	217	779	1,104	245	2,626	4,971	1,135	881	2,016	6,987
Facilities - donated	2,493	11,648	9,216	3,651	34,823	61,831	12,865	6,304	19,169	81,000
In-kind volunteer tutoring and services	-	20,007	275,284	8,652	161,203	465,146	-	-	-	465,146
Insurance	162	471	585	153	1,761	3,132	(1,579)	513	(1,066)	2,066
Miscellaneous	41	174	786	67	7,256	8,324	9,268	1,642	10,910	19,234
Postage and shipping	78	337	2,011	45	1,132	3,603	496	1,565	2,061	5,664
Printing and publications	10	103	1,564	12	162	1,851	451	1,888	2,339	4,190
Professional fees	1,028	1,970	2,329	482	8,998	14,807	43,097	2,016	45,113	59,920
Program books and supplies	-	1,400	18,622	1,291	16	21,329	460	-	460	21,789
Rental facilities	-	-	-	-	-	-	-	1,822	1,822	1,822
Repairs and maintenance	240	528	623	142	1,893	3,426	618	516	1,134	4,560
Supplies	1,648	26,779	10,434	319	7,081	46,261	4,126	1,080	5,206	51,467
Telephone	365	736	1,484	186	3,075	5,846	2,529	670	3,199	9,045
Travel	-	-	75	-	100	175	5	-	5	180
Cost of goods sold inventory adjustment	-	-	-	-	(40,258)	(40,258)	-	-	-	(40,258)
Total expenses	<u>\$ 58,930</u>	<u>\$ 179,477</u>	<u>\$ 454,437</u>	<u>\$ 46,669</u>	<u>\$ 592,125</u>	<u>\$ 1,331,638</u>	<u>\$ 210,799</u>	<u>\$ 128,084</u>	<u>\$ 338,883</u>	<u>\$ 1,670,521</u>

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (37,413)	\$ 344,596
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,911	4,650
Net realized and unrealized gains on investments	146,486	(147,052)
Decrease (increase) in assets:		
Contributions and grants receivable	(23,588)	(48,120)
Contributed rent receivable	81,000	81,000
Accounts receivable	773	7,004
Inventory	59,968	(40,257)
Prepaid expenses	(6,726)	1,844
Increase (decrease) in liabilities:		
Accounts payable	388	3,732
Accrued payroll	7,039	(47,591)
Accrued vacation	992	(13,685)
Refundable advance	(185,900)	25,300
	<u>46,930</u>	<u>171,421</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(7,189)	-
Purchases of investments	(139,936)	(123,555)
Proceeds from sales of investments	-	85,309
	<u>(147,125)</u>	<u>(38,246)</u>
Net Increase (Decrease) in Cash	(100,195)	133,175
Cash, Beginning of Year	<u>327,396</u>	<u>194,221</u>
Cash, End of Year	<u>\$ 227,201</u>	<u>\$ 327,396</u>

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 1 - ORGANIZATION

The Literacy Council of Northern Virginia, Inc. (the Council) is an adult educational organization whose mission is to teach adults the basics of reading, writing, speaking, and understanding English so they can access employment and education opportunities and more fully and equitably participate in their community. The Council teaches primarily foreign-born adults through classroom programs with the help of trained volunteers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Council's financial statements are presented in accordance with accounting principles generally accepted in the United States of America (US GAAP) for nonprofit organizations. Under those principles, the Council is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions represent resources that are not subject to donor-imposed restrictions and are available for operations at management's discretion.

Net Assets With Donor Restrictions represent resources restricted by donors. Some donor restrictions are temporary in nature and those restrictions will be met by actions of the Council or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, donor restricted net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the accompanying statement of activities.

Basis of Accounting

The Council's financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when obligations are incurred.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses and their functional allocation during the reporting period. Actual results could differ from those estimates and be significantly affected by the severity and duration of the COVID-19 pandemic.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

US GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. US GAAP requires the Council to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities
- Level 2 - quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - significant unobservable inputs.

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

The following is a description of the valuation techniques used for assets measured at fair value on a recurring basis. There have been no changes to the techniques used during the years ended June 30, 2022 and 2021.

- Mutual funds, equity securities and exchange traded funds: Valued at the closing quoted price in an active market.
- Corporate bonds: Valued at their stated interest rates and quality ratings. The interest and quality ratings are observable at commonly quoted intervals for the full term of the instruments and are, therefore, considered Level 2.

Income Taxes

The Council is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. The Council is not classified as a private foundation.

The income tax positions taken by the Council for any years open under the various statutes of limitations are that the Council continues to be exempt from income taxes. The Council believes that there are no tax positions taken or expected to be taken that would significantly increase unrecognized tax liabilities within 12 months of the reported date. None of the Council's federal or state income tax returns are currently under examination.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Grants Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Grants receivable are conditional contributions that are recognized when qualifying expenses are incurred. At June 30, 2022 and 2021, grants receivable for \$99,171 and \$85,623 originated from cost reimbursement grants in which the expenses have already been incurred during the years ended June 30, 2022 and 2021, respectively. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At June 30, 2022 and 2021, no allowance for doubtful accounts had been recognized.

Accounts Receivable

Accounts receivable that are due in less than one year are stated at their net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At June 30, 2022 and 2021, all receivables are fully collectible, therefore, no allowance for doubtful accounts has been recognized.

Inventory

Inventory consists of textbooks and is stated at the lower of cost or market by the most recent information available near the year end.

Investments

Investments are reported at fair value. Realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in net assets without donor restrictions, unless the income or loss is restricted by the donor or by law. The Council invests in a variety of investments that are exposed to various risks, such as fluctuations in market value and credit risk. It is reasonably possible that changes in risks in the near term could materially affect investment balances and amounts reported in the accompanying financial statements. Donated securities are recorded at their fair value on the date of the donation. Investment income is reported net of external and direct internal investment expenses.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment, Net

Property and equipment acquisitions are recorded in the financial statements at cost, net of accumulated depreciation and amortization. Donated property and equipment are stated at fair value at the date of donation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Library	3 years
Office equipment	5 years
Furniture	5 years

The Council's policy is to capitalize major additions and improvements over \$1,000. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

Revenue Recognition

Contributions and grant revenue: The Council recognizes contributions, grant, and special fundraising events revenue when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. The Council reports gifts of cash and other assets as donor restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to the Council's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

Program service fees: Workshop and student fees are recognized as revenue in the period the events take place. Fees received relating to future periods are recorded as deferred revenue in the accompanying statements of financial position.

In-kind contributions: Donated materials, services and use of facilities are recorded at fair value when an unconditional commitment is received and are recognized as in-kind contributions as revenue and expense in the accompanying financial statements. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Council utilized the in-kind contributions for program and support services.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Method of Allocation</u>	<u>Expense</u>
Time and effort	Salaries, payroll taxes, employee benefits, professional fees, dues and memberships, supplies, telephone, insurance, events, rent, repairs and maintenance, depreciation and amortization and other expenses
Program expenses	In-kind supplies and equipment, and in-kind volunteer tutoring and other services

New Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosure about leasing arrangements. ASU No. 2016-02, as amended by 2020-05, is effective for nonprofit entities for fiscal years beginning after December 15, 2021. In July 2018, FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, providing an optional transition method, which allows the entity to apply the new standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. The Council plans to adopt the new ASUs for the year ended June 30, 2023.

NOTE 3 - CONCENTRATIONS

Credit Risk

Financial instruments that potentially subject the Council to significant concentrations of credit risk consist of cash and investments. Such investments are exposed to various risks such as market and credit fluctuation. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 3 - CONCENTRATIONS (Continued)

Credit Risk (Continued)

financial statements. The Council maintains cash and investment accounts with financial institutions that from time to time may exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The Council has not experienced any credit losses on its cash and investments to date, as it relates to FDIC and SIPC insurance limits. Management assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

Customers

The Council received grants of \$453,800 and \$287,874 from local and state governments, which represents 33% and 27% of its contributions and grant revenue during the years ended June 30, 2022 and 2021, respectively. The Council also has grants receivable of \$99,171 and \$85,623 from local and state governments, which represents 80% and 85% of its contributions and grants receivable at June 30, 2022 and 2021, respectively.

NOTE 4 - LIQUIDITY AND AVAILABILITY

The following represents the Council's financial assets as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash	\$ 227,201	\$ 327,396
Contributions and grants receivable	124,211	100,623
Accounts receivable	627	1,400
Investments	<u>719,803</u>	<u>726,353</u>
Total financial assets	1,071,842	1,155,772
Less amounts not available within one year:		
Net assets with donor purpose restrictions	<u>-</u>	<u>(20,000)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,071,842</u>	<u>\$ 1,135,772</u>

The Council invests cash in excess of operating needs prudently in liquid assets and/or investments, depending on anticipated cash flow needs. The Council's investment portfolio is managed by professional investment advisors.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The table below presents the Council's fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds - equity funds	\$ 23,710	\$ -	\$ -	\$ 23,710
Exchange traded funds - bond funds	16,140	-	-	16,140
Equities-common and preferred stock	277,353	-	-	277,353
Bonds-corporate	-	74,095	-	74,095
Mutual funds	<u>298,577</u>	<u>-</u>	<u>-</u>	<u>298,577</u>
 Total investments measured at fair value	 <u>\$ 615,780</u>	 <u>\$ 74,095</u>	 <u>\$ -</u>	 \$ 689,875
 Money market funds, at cost				 <u>29,928</u>
 Total investments				 <u>\$ 719,803</u>

The table below presents the Council's fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds - equity funds	\$ 32,112	\$ -	\$ -	\$ 32,112
Exchange traded funds - bond funds	21,682	-	-	21,682
Equities-common and preferred stock	286,076	-	-	286,076
Bonds-corporate	-	81,786	-	81,786
Mutual funds	<u>297,211</u>	<u>-</u>	<u>-</u>	<u>297,211</u>
 Total investments measured at fair value	 <u>\$ 637,081</u>	 <u>\$ 81,786</u>	 <u>\$ -</u>	 \$ 718,867
 Money market funds, at cost				 <u>7,486</u>
 Total investments				 <u>\$ 726,353</u>

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

For the years ended June 30, 2022 and 2021, net investment income (loss) consisted of the following:

	<u>2022</u>	<u>2021</u>
Interest, dividends and capital gains	\$ 46,498	\$ 14,889
Unrealized gains (losses)	(146,486)	109,541
Realized gains on investments	-	37,511
Investment management fees	<u>(6,066)</u>	<u>(4,620)</u>
Net investment income (loss)	<u>\$ (106,054)</u>	<u>\$ 157,321</u>

NOTE 6 - PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment held as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Library	\$ 31,526	\$ 31,526
Office equipment	38,128	30,939
Furniture	<u>1,900</u>	<u>1,900</u>
Property and equipment	71,554	64,365
Accumulated depreciation and amortization	<u>(62,769)</u>	<u>(58,858)</u>
Total property and equipment, net	<u>\$ 8,785</u>	<u>\$ 5,507</u>

For the years ended June 30, 2022 and 2021, depreciation and amortization expense totaled \$3,911 and \$4,650, respectively.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2022 and 2021, net assets with donor restrictions were available for the following programs:

	<u>2022</u>	<u>2021</u>
Purpose restriction:		
Community Foundation of Anne Arundel County	\$ -	\$ 20,000
Time restriction - contributed rent	<u>-</u>	<u>81,000</u>
Total net assets with donor restrictions	<u>\$ -</u>	<u>\$ 101,000</u>

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets were released from donor restrictions during the year ended June 30, 2022 and 2021 for the following purposes:

	<u>2022</u>	<u>2021</u>
Scholarship program services	\$ -	\$ 10,748
Destination workforce	231,086	99,338
Adult basic literacy and beginning English	150,110	86,653
Family learning	15,000	10,000
Integrated English literacy and civics education	176,061	150,000
CARES Act	-	63,523
Purchases - computers and peripherals	-	15,219
Time restriction	<u>101,000</u>	<u>81,000</u>
Total net assets released from restrictions	<u>\$ 673,257</u>	<u>\$ 516,481</u>

NOTE 8 - IN-KIND CONTRIBUTIONS

Volunteers provide the majority of the tutoring and teaching services provided by the Council along with other classroom services. For the years ended June 30, 2022 and 2021, the number of hours contributed totaled approximately 20,000 and 15,300, respectively. These hours are multiplied by the value of volunteer time based on the Virginia Employment Commission average hourly earnings. The Virginia average hourly value of volunteer time for the years ended June 30, 2022 and 2021 was \$29.95 and \$28.54. The value of these services for the years ended June 30, 2022 and 2021 totaled \$598,064 and \$436,700, respectively, which is included in contributed services revenue and program services expense in the accompanying statements of activities.

The Council receives 4,050 square feet of donated space from the county government in which to operate. The space is valued at \$20 per square foot for each year. In June 2020, the Council received notice of donated space committed for the years ending June 30, 2021 and 2022. This donation totaled \$162,000 and was included in contributed rent and contributed rent receivable during the year ended June 30, 2020. For the years ended June 30, 2022 and 2021, \$81,000 was recognized each year as facilities - donated expense in the accompanying statements of functional expenses.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 9 - COMMITMENTS

Operating leases

In June 2016, the Council entered into a 63-month lease agreement for a postage meter and scale. The lease requires a monthly rent payment of \$127 and will expire in September 2022. In November of 2020, the old equipment under the lease was replaced with new equipment of the same caliber. The Council was able to renegotiate the terms of the lease for a new monthly rent of \$99, but the lease period was extended for another 63 months with a new expiration date of February of 2026. After the end of the lease, the Council has the option of purchasing the postage meter and scale at fair value. Equipment rental expense for the years ended June 30, 2022 and 2021 was \$1,273 and \$2,231, respectively.

The Council also entered into amended lease agreements for office space. In May 2020, the lease was amended, and the monthly payment reduced to \$149 with a 3% annual escalation. In December 2021, the lease was amended and the monthly payments were \$158 with a 3% annual escalation. Office rent expense for the years ended June 30, 2022 and 2021 was \$1,875 and \$1,822, respectively.

Aggregate future minimum lease payments are as follows for the years ending June 30:

2023	\$ 1,979
2024	1,188
2025	1,188
2026	<u>792</u>
Total	<u>\$ 5,147</u>

NOTE 10 - RETIREMENT PLAN

The Council maintains a qualified Simple Retirement Plan where qualified employees can make pre-tax contributions up to statutory limits. All employees who have earned at least \$5,000 in annual compensation in any two preceding years are eligible for enrollment in the Council's Plan. The Council makes matching contributions up to three percent of the participating employee's salary for any employees who work 30 hours or more per week.

Retirement plan expense for the year ended June 30, 2022 and 2021 totaled \$17,103 and \$19,623, respectively.

LITERACY COUNCIL OF NORTHERN VIRGINIA, INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

NOTE 11 - REFUNDABLE ADVANCE

The Paycheck Protection Program (PPP) provides for a low-interest Small Business Administration (SBA) loan and generally covers two and a half months of payroll costs and may be forgiven entirely if the borrower maintains certain staffing levels and spends a certain amount of funds on salaries and other qualifying expenditures during the qualified period. The Council was approved for a loan in April 2020 under this program in the amount of \$160,600, with an interest rate of 1% and a maturity date of April 2022. The Council recorded the loan as a refundable grant advance in FY2020. During the year ended June 30, 2021, the entire loan amount was recognized as PPP grant revenue following a forgiveness notice provided by the SBA on November 2, 2020.

On January 26, 2021, the Council was granted a second draw on the Paycheck Protection Program in the amount of \$185,900, with an interest rate of 1% and a maturity date of January 2026. The balance of the loan is included in the accompanying statement of financial position as of June 30, 2021 as a refundable grant advance until forgiveness is approved. In July 2021, the SBA granted a partial forgiveness on the second draw in the amount of \$165,992. This amount, along with the interest forgiven, was recognized as grant income in the accompanying statements of activities for the year ended June 30, 2022. The remainder of the loan was paid by the Council and the second PPP loan was considered fully repaid as of September 10, 2021.

According to the rules of the SBA, the Council is required to retain documentation for six years after the date of the refundable advance is forgiven or repaid in full and permit authorized representatives of the SBA to access such files upon request.

NOTE 12 - SUBSEQUENT EVENTS

In preparing the financial statements, the Council has evaluated events and transactions for potential recognition or disclosure through November 14, 2022, which is the date the financial statements were available to be issued. In October 2022, the Council extended the lease agreement until June 30, 2024 for the 4,050 square feet of donated space from the county government.