

**Making It Better
(DBA Literacy Now)**

Financial Statements
and Independent Auditors' Report
for the years ended July 31, 2021 and 2020

Literacy Now

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Independent Auditors' Report

To the Board of Directors of
Literacy Now:

We have audited the accompanying financial statements of Making It Better (DBA Literacy Now), which comprise the statements of financial position as of July 31, 2021 and 2020, and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

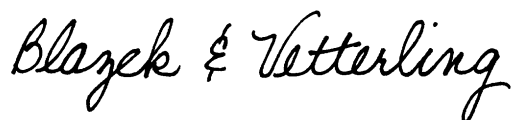
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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.

Auditors' 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 our audits 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 auditors' 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 Literacy Now as of July 31, 2021 and 2020 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.



December 10, 2021

Literacy Now

Statements of Financial Position as of July 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 684,817	\$ 259,813
Contributions receivable	2,490	63,500
Prepaid expenses and other receivables	44,837	35,431
Certificate of deposit	<u>155,487</u>	<u>155,002</u>
 TOTAL ASSETS	 <u>\$ 887,631</u>	 <u>\$ 513,746</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 27,702	\$ 19,464
Accrued payroll liabilities	21,214	20,837
Deferred revenue	15,000	
Refundable advance – special event	20,000	
Refundable advance – Paycheck Protection Program (<i>Note 2</i>)	<u>188,743</u>	<u>160,450</u>
Total liabilities	<u>272,659</u>	<u>200,751</u>
Net assets:		
Without donor restrictions	612,482	242,495
With donor restrictions (<i>Note 4</i>)	<u>2,490</u>	<u>70,500</u>
Total net assets	<u>614,972</u>	<u>312,995</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 887,631</u>	 <u>\$ 513,746</u>

See accompanying notes to financial statements.

Literacy Now

Statement of Activities for the year ended July 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 834,119	\$ 145,890	\$ 980,009
Government grants <i>(Note 2)</i>		160,450	160,450
In-kind contributions <i>(Note 3)</i>	157,708		157,708
Special events	307,036		307,036
Direct donor benefits	(27,067)		(27,067)
Program fees	163,000		163,000
Other income	1,976		1,976
Total revenue	1,436,772	306,340	1,743,112
Net assets released from restrictions:			
Release of time restrictions	63,500	(63,500)	
Program expenditures	310,850	(310,850)	
Total	1,811,122	(68,010)	1,743,112
EXPENSES:			
Program services	1,048,145		1,048,145
Management and general	149,683		149,683
Fundraising	243,307		243,307
Total expenses	1,441,135		1,441,135
CHANGES IN NET ASSETS	369,987	(68,010)	301,977
Net assets, beginning of year	242,495	70,500	312,995
Net assets, end of year	\$ 612,482	\$ 2,490	\$ 614,972

See accompanying notes to financial statements.

Literacy Now

Statement of Activities for the year ended July 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 294,399	\$ 66,500	\$ 360,899
In-kind contributions (<i>Note 3</i>)	162,018		162,018
Special events	477,005		477,005
Direct donor benefits	(117,364)		(117,364)
Program fees	146,953		146,953
Other income	4,995		4,995
	<hr/>	<hr/>	<hr/>
Total revenue	968,006	66,500	1,034,506
Net assets released from restrictions:			
Release of time restrictions	211,000	(211,000)	
Program expenditures	64,500	(64,500)	
	<hr/>	<hr/>	<hr/>
Total	1,243,506	(209,000)	1,034,506
EXPENSES:			
Program services	946,850		946,850
Management and general	151,529		151,529
Fundraising	251,493		251,493
	<hr/>		<hr/>
Total expenses	1,349,872		1,349,872
CHANGES IN NET ASSETS			
	(106,366)	(209,000)	(315,366)
Net assets, beginning of year	348,861	279,500	628,361
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Net assets, end of year	\$ 242,495	\$ 70,500	\$ 312,995

See accompanying notes to financial statements.

Literacy Now

Statements of Functional Expenses for the years ended July 31, 2021 and 2020

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2021 TOTAL</u>
Salaries, taxes, and benefits	\$ 811,636	\$ 104,607	\$ 181,017	\$ 1,097,260
Classroom space rental	123,400			123,400
Supplies and office expenses	84,204	3,725	34,167	122,096
Professional fees	17,904	38,112	17,563	73,579
Insurance	6,735	1,709		8,444
Professional development	3,173	649	447	4,269
Other	<u>1,093</u>	<u>881</u>	<u>10,113</u>	<u>12,087</u>
Total expenses	<u>\$ 1,048,145</u>	<u>\$ 149,683</u>	<u>\$ 243,307</u>	1,441,135
Direct donor benefits				<u>27,067</u>
Total				<u>\$ 1,468,202</u>

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2020 TOTAL</u>
Salaries, taxes, and benefits	\$ 710,330	\$ 55,754	\$ 171,270	\$ 937,354
Classroom space rental	87,276			87,276
Supplies and office expenses	73,296	4,133	10,407	87,836
Professional fees	49,779	73,662	59,288	182,729
Insurance	7,599	1,630		9,229
Professional development	13,275	15,169	733	29,177
Other	<u>5,295</u>	<u>1,181</u>	<u>9,795</u>	<u>16,271</u>
Total expenses	<u>\$ 946,850</u>	<u>\$ 151,529</u>	<u>\$ 251,493</u>	1,349,872
Direct donor benefits				<u>117,364</u>
Total				<u>\$ 1,467,236</u>

See accompanying notes to financial statements.

Literacy Now

Statements of Cash Flows for the years ended July 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 301,977	\$ (315,366)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Changes in operating assets and liabilities:		
Contributions receivable	61,010	174,500
Prepaid expenses and other receivables	(9,406)	11
Accounts payable	8,238	(16,744)
Accrued payroll liabilities	377	4,465
Deferred revenue	15,000	(119,100)
Refundable advance	<u>48,293</u>	<u>160,450</u>
Net cash provided (used) by operating activities	<u>425,489</u>	<u>(111,784)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchase of certificate of deposit	<u>(485)</u>	<u>(2,772)</u>
NET CHANGE IN CASH	425,004	(114,556)
Cash, beginning of year	<u>259,813</u>	<u>374,369</u>
Cash, end of year	<u>\$ 684,817</u>	<u>\$ 259,813</u>

See accompanying notes to financial statements.

Literacy Now

Notes to Financial Statements for the years ended July 31, 2021 and 2020

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Making It Better (DBA Literacy Now) is a non-profit corporation incorporated in 2006 under the laws of the State of Texas for the purpose of transforming communities by empowering children and families through literacy, leadership and life skills. Literacy Now operates in 11 Houston Independent School District (HISD) campuses and multiple community sites.

Federal income tax status – Literacy Now is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible contributions receivable is estimated based on management's periodic evaluation of past loss experience, and known adverse situations that may affect the donor's ability to pay. Contributions receivable outstanding at July 31, 2021 are all expected to be collected within one year.

Certificate of deposit is a one year non-negotiable, bank time deposit valued at face value plus accrued interest, which approximates fair value.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Contributions and government grants are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions and government grants received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions and government grants are subject to one or more barriers that must be overcome before Literacy Now is entitled to receive or retain funding. Conditional contributions and government grants are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as a refundable advance.

In-kind contributions – Donated materials and use of facilities are recognized as contributions at estimated fair value when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. 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.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the events occur. Amounts received in advance are reported as a refundable advance. Direct donor benefits represent the cost of goods and services provided to attendees of special events.

Program fees are primarily derived from contract services for literacy programs with HISD and community organizations. Program fees are recognized over time as services are provided. All performance obligations related to program fees are satisfied within the fiscal year. Program fees are due in accordance with the scheduled payments outlined in each contract. Program fees collected in advance of the period of services are deferred until performance obligations are met. Deferred revenue totaled \$15,000 at July 31, 2021. There were no contract liabilities at July 31, 2020 or 2019. There were no accounts receivable related to program fees at July 31, 2021 or 2019. At July 31, 2020, accounts receivable related to program fees is \$2,400.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Information technology and communications, occupancy and insurance are allocated based on payroll costs.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, will require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and will require disclosure about the measurement and use of types of contributed nonfinancial assets. The ASU will be effective for fiscal years beginning after June 15, 2021, and requires retrospective application.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of July 31 comprise the following:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 684,817	\$ 259,813
Contributions receivable	2,490	63,500
Other receivable		2,400
Certificate of deposit	<u>155,487</u>	<u>155,002</u>
Total financial assets available for general expenditure	<u>\$ 842,794</u>	<u>\$ 480,715</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Literacy Now considers all expenditures related to its ongoing activities of providing literacy programs, as well as the conduct of services undertaken to support those activities, to be general expenditures.

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. In fiscal year 2020, Literacy Now had to provide services remotely as school campuses and community sites were closed. To mitigate the financial impact, Literacy Now applied for a Paycheck Protection Program (PPP) loan of \$160,450 in April 2020 and a Second Draw PPP loan of \$188,743 in February 2021. PPP loan principal and interest (1% annual interest rate) may be forgiven, in whole or in part, if funds are used within a specified period for allowable expenses. Notice of forgiveness was received on the first loan during February 2021 and has been recognized as government grant revenue as of July 31, 2021. Management expects the Second Draw PPP loan to be fully forgiven in fiscal year 2022 and is reflected as a refundable advance at July 31, 2021.

NOTE 3 – IN-KIND CONTRIBUTIONS

Literacy Now recognizes contributions for donated space, professional fees and supplies as follows:

	<u>2021</u>	<u>2020</u>
Facilities – program	\$ 123,400	\$ 101,675
Professional fees – management and general	19,000	28,078
Supplies – program	12,136	12,090
Professional fees – program	1,222	20,175
Professional fees – fundraising	<u>1,950</u>	<u> </u>
Total	<u>\$ 157,708</u>	<u>\$ 162,018</u>

NOTE 4 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to passage of time	\$ 2,490	\$ 63,500
Subject to expenditure for specified purpose:		
Book purchases	<u> </u>	<u>7,000</u>
Total net assets with donor restrictions	<u>\$ 2,490</u>	<u>\$ 70,500</u>

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.