

Literacy Pittsburgh

Financial Statements and Supplementary Information

Years Ended June 30, 2023 and 2022
with Independent Auditor's Reports

MaherDuessel

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LITERACY PITTSBURGH

YEARS ENDED JUNE 30, 2023 AND 2022

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statements of Financial Position	1
Statements of Activities:	
- Year Ended June 30, 2023	2
- Year Ended June 30, 2022	3
Statements of Functional Expenses:	
- Year Ended June 30, 2023	4
- Year Ended June 30, 2022	5
Statements of Cash Flows	6
Notes to Financial Statements	7

Supplementary Information:

Schedule of Expenditures of Federal Awards	25
Notes to Schedule of Expenditures of Federal Awards	26

Independent Auditor's Reports Required by the Uniform Guidance:

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	29

LITERACY PITTSBURGH

YEARS ENDED JUNE 30, 2023 AND 2022

TABLE OF CONTENTS

(Continued)

Schedule of Findings and Questioned Costs	32
Summary Schedule of Prior Audit Findings	34

Independent Auditor's Report

**Board of Directors
Literacy Pittsburgh**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Literacy Pittsburgh (LP), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 LP as of June 30, 2023 and 2022, 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 and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 LP, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, Literacy Pittsburgh adopted ASU 2016-02, "*Leases (Topic 842)*," which requires lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Our opinion is not modified with respect to this matter.

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 LP'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 and *Government 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 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 and *Government 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 LP'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 LP'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2023 on our consideration of LP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LP's internal control over financial reporting and compliance.

Maher Duessel

Pittsburgh, Pennsylvania
December 18, 2023

LITERACY PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,574,978	\$ 2,438,681
Grants and accounts receivable	244,171	349,500
Prepaid expenses	58,974	55,974
Total current assets	<u>2,878,123</u>	<u>2,844,155</u>
Fixed assets:		
Furnishings and equipment	353,633	347,387
Leasehold improvements	388,912	388,912
Less: accumulated depreciation	<u>(682,120)</u>	<u>(674,404)</u>
Total fixed assets, net of depreciation	<u>60,425</u>	<u>61,895</u>
Operating lease right-of-use asset	<u>1,476,656</u>	<u>-</u>
Investments - endowment	<u>2,495,491</u>	<u>2,401,129</u>
Other assets	<u>7,644</u>	<u>7,644</u>
Total Assets	<u><u>\$ 6,918,339</u></u>	<u><u>\$ 5,314,823</u></u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 129,158	\$ 128,762
Refundable advance	114,772	149,978
Compensated absences	97,066	86,048
Current portion of operating lease liability	<u>248,846</u>	<u>-</u>
Total current liabilities	<u>589,842</u>	<u>364,788</u>
Noncurrent portion of operating lease liability	<u>1,240,008</u>	<u>-</u>
Total Liabilities	<u>1,829,850</u>	<u>364,788</u>
Net Assets:		
Without donor restrictions:		
Board-designated for endowment	548,018	527,262
Undesignated	<u>1,754,696</u>	<u>1,631,585</u>
Total without donor restrictions	<u>2,302,714</u>	<u>2,158,847</u>
With donor restrictions	<u>2,785,775</u>	<u>2,791,188</u>
Total Net Assets	<u>5,088,489</u>	<u>4,950,035</u>
Total Liabilities and Net Assets	<u><u>\$ 6,918,339</u></u>	<u><u>\$ 5,314,823</u></u>

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Support and Revenues:			
Government grants	\$ 3,122,405	\$ -	\$ 3,122,405
Contributions - corporations and foundations	49,291	1,107,023	1,156,314
Contributions - individual	770,597	-	770,597
Contributed nonfinancial assets	47,846	-	47,846
Special events	82,168	-	82,168
Investment gain (loss), net	20,756	204,933	225,689
Program income	483,486	-	483,486
Miscellaneous	-	-	-
Net assets released from restrictions:			
Satisfaction of restrictions	1,186,042	(1,186,042)	-
Endowment earnings appropriated for expenditure	131,327	(131,327)	-
Total operating support and revenues	<u>5,893,918</u>	<u>(5,413)</u>	<u>5,888,505</u>
Operating Expenses:			
Literacy program services	4,582,509	-	4,582,509
Management and general	862,368	-	862,368
Fundraising	305,174	-	305,174
Total operating expenses	<u>5,750,051</u>	<u>-</u>	<u>5,750,051</u>
Change in Net Assets	143,867	(5,413)	138,454
Net Assets:			
Beginning of year	<u>2,158,847</u>	<u>2,791,188</u>	<u>4,950,035</u>
End of year	<u>\$ 2,302,714</u>	<u>\$ 2,785,775</u>	<u>\$ 5,088,489</u>

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Support and Revenues:			
Government grants	\$ 2,839,631	\$ -	\$ 2,839,631
Contributions - corporations and foundations	200,706	912,216	1,112,922
Contributions - individual	666,076	-	666,076
Contributed nonfinancial assets	-	-	-
Special events	80,020	-	80,020
Investment gain (loss), net	(141,426)	(378,608)	(520,034)
Program income	506,346	-	506,346
Miscellaneous	4,907	-	4,907
Net assets released from restrictions:			
Satisfaction of restrictions	1,102,094	(1,102,094)	-
Endowment earnings appropriated for expenditure	125,150	(125,150)	-
	<u>5,383,504</u>	<u>(693,636)</u>	<u>4,689,868</u>
Total operating support and revenues			
Operating Expenses:			
Literacy program services	3,955,769	-	3,955,769
Management and general	743,679	-	743,679
Fundraising	334,619	-	334,619
	<u>5,034,067</u>	<u>-</u>	<u>5,034,067</u>
Total operating expenses			
Change in Net Assets	349,437	(693,636)	(344,199)
Net Assets:			
Beginning of year	<u>1,809,410</u>	<u>3,484,824</u>	<u>5,294,234</u>
End of year	<u>\$ 2,158,847</u>	<u>\$ 2,791,188</u>	<u>\$ 4,950,035</u>

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

	Literacy Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,638,100	\$ 430,195	\$ 135,892	\$ 3,204,187
Payroll taxes	240,228	20,381	11,180	271,789
Fringe benefits	417,008	124,717	23,336	565,061
Total salaries and related expenses	3,295,336	575,293	170,408	4,041,037
Subcontractors	630,235	-	-	630,235
Lobbying	25,145	-	-	25,145
Instructional materials and fees	68,627	-	-	68,627
Professional fees	32,087	116,273	28,481	176,841
Donated services	11,625	36,221	-	47,846
Office supplies	40,058	46,685	5	86,748
Printing and publications	12,563	1,330	9,043	22,936
Postage and shipping	2,758	7,390	4,485	14,633
Telephone	19,883	19,038	-	38,921
Occupancy	256,497	23,325	5,021	284,843
Insurance	-	17,029	-	17,029
Travel	15,161	1,295	209	16,665
Staff development and training	100,265	15,723	9,344	125,332
Special events	-	-	77,619	77,619
Bank fees and interest	-	740	173	913
Bad debt expense	62,609	1,278	-	63,887
Miscellaneous	2,948	130	-	3,078
Total before depreciation and amortization	4,575,797	861,750	304,788	5,742,335
Depreciation and amortization	6,712	618	386	7,716
Total expenses	\$ 4,582,509	\$ 862,368	\$ 305,174	\$ 5,750,051

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Literacy Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,098,268	\$ 433,714	\$ 121,840	\$ 2,653,822
Payroll taxes	191,342	14,780	14,083	220,205
Fringe benefits	345,392	123,354	24,671	493,417
Total salaries and related expenses	2,635,002	571,848	160,594	3,367,444
Subcontractors	636,594	-	-	636,594
Lobbying	12,414	-	-	12,414
Instructional materials and fees	58,935	-	-	58,935
Professional fees	159,881	58,188	94,181	312,250
Donated services	-	-	-	-
Office supplies	78,129	25,551	510	104,190
Printing and publications	8,640	3,213	7,495	19,348
Postage and shipping	4,527	6,014	5,023	15,564
Telephone	22,683	16,076	-	38,759
Occupancy	281,702	19,955	4,693	306,350
Insurance	-	21,101	-	21,101
Travel	10,861	3,293	673	14,827
Staff development and training	28,570	5,971	1,788	36,329
Special events	-	-	56,313	56,313
Bank fees and interest	-	10,481	2,450	12,931
Bad debt expense	-	-	-	-
Miscellaneous	2,185	549	-	2,734
Total before depreciation and amortization	3,940,123	742,240	333,720	5,016,083
Depreciation and amortization	15,646	1,439 #	899	17,984
Total expenses	\$ 3,955,769	\$ 743,679	\$ 334,619	\$ 5,034,067

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Cash Flows From Operating Activities:		
Change in net assets	\$ 138,454	\$ (344,199)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,716	17,984
Reduction in carrying amount of operating right-of-use asset	-	-
Net realized and unrealized (gain) loss on investments	(150,772)	650,335
Bad debt expense	63,887	-
Change in assets and liabilities:		
Grants and accounts receivable	41,442	44,221
Prepaid expenses	(3,000)	22,089
Accounts payable	396	38,064
Refundable advance	(35,206)	(79,909)
Compensated absences	11,018	(1,209)
Operating lease asset and liability	12,198	-
Net cash provided by (used in) operating activities	<u>86,133</u>	<u>347,376</u>
Cash Flows From Investing Activities:		
Purchase of fixed assets	(6,246)	(68,989)
Purchase of investments	(194,933)	(500,931)
Proceeds from sales of investments	251,343	495,780
Net cash provided by (used in) investing activities	<u>50,164</u>	<u>(74,140)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	136,297	273,236
Cash and Cash Equivalents:		
Beginning of year	2,438,681	2,165,445
End of year	<u>\$ 2,574,978</u>	<u>\$ 2,438,681</u>
Schedule of Noncash Investing and Financing Activities:		
Addition of right-to-use asset for operating lease	<u>\$ 1,686,164</u>	<u>\$ -</u>

See accompanying notes to financial statements.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

1. Organization

The mission of Literacy Pittsburgh (LP), a nonprofit corporation, is better lives through learning. LP provides education for adults and children in reading, writing, math, English language, GED preparation, computer skills, and workforce skills. Starting in fiscal year 2019, LP put an increasing emphasis on preparing students for employment and/or postsecondary education. LP envisions a more inclusive and productive community driven by access to education.

LP was incorporated in 1982 and changed its name from Greater Pittsburgh Literacy Council in February 2018. LP's primary adult and family education programs are coordinated by 55 employees at 10 locations in the Pittsburgh, Pennsylvania, metropolitan area. LP's volunteer tutors, AmeriCorps members, and professional staff served 2,722 and 2,051 learners in the Pittsburgh area during the years ended June 30, 2023 and 2022, respectively.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized as they are earned, and expenses are recorded when liabilities are incurred.

Basis of Presentation

Literacy Pittsburgh classifies its net assets and its revenue, support, and expenses based on the existence or absence of donor-imposed restrictions. Net assets with donor restrictions result from contributions specifically restricted by donors for various programs or future periods. Net assets without donor restrictions represent resources over which the Board of Directors (Board) has discretionary control.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ significantly from those estimates.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. LP maintains its cash accounts at one commercial bank located in the City of Pittsburgh. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. LP had cash balances of \$2,355,902 and \$2,242,332 in excess of FDIC insured limits at June 30, 2023 and 2022, respectively. Management has no concerns regarding the solvency of the financial institutions involved at the current time.

Liquidity and Availability

LP manages its liquid resources by focusing on fundraising efforts to ensure the entity has adequate contributions and grants to cover the programs that are being conducted. LP prepares very detailed budgets and has been very active in cutting costs to ensure the entity remains liquid.

The following reflects LP's financial assets (cash and cash equivalents, grants and accounts receivable, and investments) as of June 30, 2023 and 2022 expected to be available within one year to meet the cash needs for general expenditures:

	<u>2023</u>	<u>2022</u>
Financial assets, at year-end	\$ 5,314,640	\$ 5,189,310
Less: those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by board designation	(548,018)	(527,262)
Restricted by donor with time or purpose restrictions	(1,888,885)	(1,894,298)
Restricted for permanent endowment	<u>(896,890)</u>	<u>(896,890)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,980,847</u>	<u>\$ 1,870,860</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Grants and Accounts Receivable

Grants receivable represent amounts awarded by donors and government agencies that have not been received. Management has determined that no allowance was considered necessary at June 30, 2023 and 2022. Grants receivable are expected to be received within one year. The grants receivable balance as of June 30, 2023 and 2022 was \$193,592 and \$266,508, respectively.

Receivables from contracts with customers are reported as accounts receivable, net any allowance. Management determines the allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. No allowance was deemed necessary for the years ended June 30, 2023 and 2022. Beginning and ending accounts receivable balances for the year ended June 30, 2023 were \$82,992 and \$50,579, respectively. Beginning and ending accounts receivable balances for the year ended June 30, 2022 were \$94,039 and \$82,992, respectively.

Revenue and Revenue Recognition

Contributions are recognized when a donor makes an unconditional promise to give and are recorded as with donor restrictions or without donor restrictions depending on the existence or nature of any donor restrictions. 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 substantially met. Conditional grants received in advance are recorded as refundable advances.

LP received a conditional contribution with an original awarded amount of \$300,000 during the year ended June 30, 2020. In addition to contribution revenue recognized prior to the year ended June 30, 2022, conditions were met and revenue was recognized in the amount of \$135,206 and \$50,022 during the years ended June 30, 2023 and 2022, respectively. The remaining \$14,772 of the conditional contribution is recorded as refundable advance as of June 30, 2023, as the remaining conditions have not been met.

During the year ended June 30, 2023, LP was awarded a conditional contribution in the amount of \$200,000. Only \$100,000 of this grant was received and is recorded as refundable advance as of June 30, 2023. No conditions were met and therefore no revenue was recognized for this grant during the year ended June 30, 2023.

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time period has elapsed,

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

A portion of the LP revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when LP has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. LP was awarded cost-reimbursable grants of \$600,020 and \$68,747 that have not been recognized at June 30, 2023 and 2022, respectively, because qualifying expenditures have not yet been incurred.

LP recognizes program income at the time services are provided, as that is when the performance obligations are met.

Payments for program services and special event revenue, other than contributions, received in advance of service delivery are deferred. There was no material deferred revenue at the beginning or end of the years ended June 30, 2023 and 2022.

There have been no changes in the significant judgments related to the amount and timing of revenue from program service contracts, and there are no impairment losses recognized related to these contracts.

Refundable Advance

Refundable advances were \$114,772 and \$149,978 for the years ended June 30, 2023 and 2022, respectively. This represents refundable advance amounts, or conditional contributions that have been received in advance of the condition being met. At June 30, 2023 and 2022, refundable advance balance is made up of the following:

	<u>2023</u>	<u>2022</u>
Heinz Endowments - Ready and Relevant 2020 grant	\$ 14,772	\$ 149,978
Heinz Endowments - Ready and Relevant 2023 grant	<u>100,000</u>	<u>-</u>
	<u>\$ 114,772</u>	<u>\$ 149,978</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Fixed Assets, Depreciation, and Amortization

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to fifteen years. Fixed asset purchases and major leasehold improvements and betterments to equipment in excess of \$5,000 are capitalized.

Donated furniture, fixtures, and equipment are recorded as support at their estimated fair value at the time of donation. Donated items are capitalized or expensed following the same capitalization threshold as purchased items. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. In the absence of donor stipulations regarding how long those assets must be maintained, LP reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. LP reclassifies net asset with donor restrictions to net assets without donor restrictions at that time.

Leases

LP determines if an arrangement is a lease at inception. Leases are included in right-of-use (ROU) assets and liabilities on the statements of financial position. Currently, LP has only operating leases as a lessee.

ROU assets represent LP's right to use an underlying asset for the lease term and lease liabilities represent LP's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As LP's leases do not provide an implicit rate, a risk-free Treasury rate is used, which is based on the information available at the commencement date in determining the present value of lease payments.

LP's lease terms may include options to extend or terminate the lease when it is reasonably certain that they will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

LP does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of such leases will be reported as lease expense on a straight-line basis over the lease term.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Fair Value Measurements

LP applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. LP defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, required to be recorded at fair value, LP considers the principal or most advantageous market in which LP would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

LP applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 - Observable inputs such as quoted prices in active markets for identical investments that LP has the ability to access.
- Level 2 - Inputs include: Quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.
- Level 3 - Unobservable inputs in which there is little or no market activity for the asset or liability, which require the management to develop its own estimates and assumptions relating to the pricing the asset or liability including assumptions regarding risk.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation techniques are used to maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are composed of money market and mutual funds investing in debt, real estate, and equity securities and are reported at fair value based on readily determinable market

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

quotations. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term and that such changes could materially affect the amounts reported in the statements of financial position.

Donor-restricted endowment unrealized gains and losses are recognized as increases or decreases in net assets with donor restrictions until the Board appropriates the earnings for use at which time the earnings appropriated are reclassified to net assets without donor restrictions. Interest on the endowment, dividends, and net realized and unrealized gains and losses are reflected as part of investment gain included in the statements of activities.

Compensated Absences

Vacation is earned at various rates, depending upon length of service and number of hours worked per week. Employees can carry over up to ten vacation days from the preceding calendar year. Upon termination of employment, employees are paid for accrued vacation; however, employees discharged for cause do not receive payment of accrued vacation.

Income Taxes

LP is a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code. LP annually files federal and state information returns as required. Accordingly, no provision for federal or state income taxes is deemed appropriate so none recorded in the financial statements.

Financial Instruments

The following methods and assumptions were used by LP in estimating its fair value disclosures for financial instruments:

- Cash, cash equivalents, and grants receivable: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.
- Short-term and endowment investments: The fair values of investments are based on quoted market prices for those or similar investments. See Note 4 for further disclosure.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Contributed Nonfinancial Assets

Contributed nonfinancial assets are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Contributed services are recognized as in-kind revenue at their estimated fair value if they create or enhance nonfinancial assets or they require specialized skills that would need to be purchased if they were not donated. For the years ended June 30, 2023 and 2022, contributed legal services of \$47,846 and \$0, respectively, were recorded as contributed nonfinancial assets. Legal services were valued and reported at their estimated fair value in the financial statements based on the current rates and hours worked by the legal firm. Legal services were used in fiscal year 2023 for consulting on various personnel items and updating the employee handbook.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between program and supporting services.

Several non-payroll related costs are subject to a grant/project allocation process (rent, utilities, and communication costs). These allocations use the most relevant allocation methodology as it applies to the cost. A time analysis based on employee percentage of effort is completed to determine how indirect costs will be allocated across the various programs, management and general, and fundraising.

Adopted Accounting Standard

The provisions of this Standards Update have been adopted and incorporated into these financial statements.

ASU 2016-02, "*Leases (Topic 842)*." These amendments and related amendments require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures are required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. LP elected the practical expedients to account for the existing operating leases and elected not to restate the prior period ending June 30, 2022. LP also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

implementing ASU No. 2016-02, LP recognized right-of-use asset of \$1,476,656 and lease liability of \$1,488,854 in its statements of financial position as of June 30, 2023. Right-of-use asset and lease liability was \$1,686,164 as of July 1, 2022. The adoption did not result in a significant effect on the amounts reported in the statements of activities for the year ended June 30, 2023.

Pending Accounting Standards Updates

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of these updates on the financial statements.

ASU 2016-13, *“Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,”* is effective, as delayed, for the financial statements for the year beginning after December 15, 2022. These amendments and related amendments require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. This includes loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor’s Report date, which is the date the financial statements were available to be issued.

3. Investments

Investments consist of money market and mutual funds. Cash and cash equivalents, reported with investments on the statements of financial position, are available to be invested, with the assistance of external advisors, in equity or longer-term debt instruments. Since there is no intent to liquidate the cash and cash equivalents for short-term operating needs, they are presented as long-term investments.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

The total returns on investments and cash equivalents for the year ended June 30, 2023 are summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 4,253	\$ 87,272	\$ 91,525
Net realized and unrealized gains (losses)	33,111	117,661	150,772
Management fees	(16,608)	-	(16,608)
Total investment gain (loss), net	<u>\$ 20,756</u>	<u>\$ 204,933</u>	<u>\$ 225,689</u>

The total returns on investments and cash equivalents for the year ended June 30, 2022 are summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 22,618	\$ 128,913	\$ 151,531
Net realized and unrealized gains (losses)	(142,814)	(507,521)	(650,335)
Management fees	(21,230)	-	(21,230)
Total investment gain (loss), net	<u>\$ (141,426)</u>	<u>\$ (378,608)</u>	<u>\$ (520,034)</u>

As indicated below, at June 30, 2023 and 2022, all LP investments were valued using Level 1 inputs. Fair values of assets measured on a recurring basis as of June 30, 2023 are as follows:

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 37,583	\$ 37,583	\$ -	\$ -
Mutual funds:				
Large Domestic Stock Funds	624,021	624,021	-	-
Small Domestic Stock Funds	275,196	275,196	-	-
International Stock Funds	548,597	548,597	-	-
Real Estate Investment Trusts	75,254	75,254	-	-
Short-Term Debt Funds	165,877	165,877	-	-
Intermediate Term Debt Funds	636,616	636,616	-	-
Other Equity Assets	132,347	132,347	-	-
Totals	<u>\$ 2,495,491</u>	<u>\$ 2,495,491</u>	<u>\$ -</u>	<u>\$ -</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Fair values of assets measured on a recurring basis as of June 30, 2022 are as follows:

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 13,197	\$ 13,197	\$ -	\$ -
Mutual funds:				
Large Domestic Stock Funds	609,223	609,223	-	-
Small Domestic Stock Funds	247,359	247,359	-	-
International Stock Funds	516,080	516,080	-	-
Real Estate Investment Trusts	92,940	92,940	-	-
Short-Term Debt Funds	161,200	161,200	-	-
Intermediate Term Debt Funds	641,396	641,396	-	-
Other Equity Assets	119,734	119,734	-	-
Totals	<u>\$ 2,401,129</u>	<u>\$ 2,401,129</u>	<u>\$ -</u>	<u>\$ -</u>

4. Government Grants

Government grants identified in the statements of activities for the years ended June 30, 2023 and 2022 are composed of the following:

	2023	2022
Federal awards	\$ 1,602,861	\$ 1,430,562
Pennsylvania Department of Education - Adult Education	642,737	910,236
Pennsylvania Department of Education - Family Literacy	185,500	175,000
Pennsylvania Department of Education - Tutoring Program	479,074	-
Other	212,233	323,833
	<u>\$ 3,122,405</u>	<u>\$ 2,839,631</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

5. Grants Receivable

Grants receivable balances at June 30, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
PA Department of Labor - Compass AmeriCorps	\$ 53,595	\$ 70,606
McCune Foundation	-	75,000
Jefferson Regional Foundation	-	75,000
DHS - Digital Literacy	27,917	-
PA Department of Labor - TEGL	77,746	-
Other	34,334	45,902
	<u>\$ 193,592</u>	<u>\$ 266,508</u>

6. Leases

LP's operations and administration are carried out in various leased spaces throughout their service area. LP evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) asset and lease liability, which arise from an operating office lease, were calculated based on the present value of future lease payments over the lease terms. As LP's lease does not provide an implicit rate, a risk-free Treasury rate of 2.92% was used, which is based on the information available at the commencement date. As of June 30, 2023, assets recorded under the operating lease was \$1,476,656. LP recognized lease cost in the amount of \$256,165 for the operating lease for the year ended June 30, 2023. Cash paid for amounts included in the lease liability for the year ended June 30, 2023 was \$243,967 for the operating lease.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Future minimum lease payments under non-cancellable leases as of June 30, 2023 were as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2024	\$ 248,846
2025	248,846
2026	258,605
2027	263,484
2028	263,484
Thereafter	<u>351,312</u>
Total future minimum lease payments	1,634,577
Less: interest	<u>(145,723)</u>
Total	<u><u>\$ 1,488,854</u></u>

Other information related to leases is as follows:

Weighted average remaining lease term:	
Operating lease	6.33
Weighted average discount rate:	
Operating lease	2.92%

Rent expense under FASB ASC 840 (pre-adoption of the new standards) for operating leases totaled \$303,594 for the year ended June 30, 2022. The minimum rental payments required under such operating leases as of June 30, 2022 were as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2023	\$ 243,967
2024	248,846
2025	248,846
2026	258,605
2027	263,484
Thereafter	<u>614,796</u>
	<u><u>1,878,544</u></u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

7. Restrictions on Net Assets

Net asset with donor restrictions at June 30, 2023 and 2022 are available for the following purposes:

	<u>2023</u>	<u>2022</u>
Subject to expense for a specified purpose (or purpose and time):		
Adult and Family Literacy	\$ 86,233	\$ 157,297
Ready and Relevant	-	103,156
College and Career Readiness	201,242	40,000
Trade Up	69,066	181,068
Math expansion	27,425	1,157
Beaver County	19,362	15,538
Jefferson planning	56,225	18,845
McKeesport	-	2,000
Digital skills development	192,316	200,000
OASIS	64,835	15,074
Student needs	661	4,347
Human resources	103,935	178,437
Other programs	17,002	402
Total subject to purpose and time restrictions	<u>838,302</u>	<u>917,321</u>
Endowment:		
Investment in perpetuity	896,890	896,890
Accumulated gains on endowment	1,050,583	976,977
Total endowment	<u>1,947,473</u>	<u>1,873,867</u>
Total net assets with donor restrictions	<u>\$ 2,785,775</u>	<u>\$ 2,791,188</u>

During the years ended June 30, 2023 and 2022, net assets in the amount of \$1,186,042 and \$1,102,094, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purpose.

During the years ended June 30, 2023 and 2022, net assets in the amount of \$131,327 and \$125,150, respectively, were released as endowment earnings appropriated for expenditure.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

8. Endowments

LP's endowment consists of one fund established to support its mission. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Commonwealth of Pennsylvania has not enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), or a version of the Uniform Management of the Institutional Funds Act (UMIFA). Governing law resides in 15 Pa. C.S. § 5548 "Investment of Trust Funds," as amended by Pennsylvania State Act 141 of 1998 (Act). LP has interpreted relevant law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, LP classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment if required by the applicable donor gift instruments. The remaining portion of the endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by LP in a manner consistent with the standard of prudence prescribed by relevant law.

Endowment Spending Policy

LP's Board -approved endowment spending policy allows LP to spend in any fiscal year, five percent of the prior three-year average endowment fair value to support LP's mission. Endowment transfers in excess of this five percent annual amount may be explicitly approved by LP's Board to support special projects, the nature of which is to build the long-term strength of LP. This spending policy is in accordance with Pennsylvania law and donor restrictions.

Return Objectives and Risk Parameters

Endowment funds include funds actively managed by LP as part of a single commingled investment pool. The principal financial objective of the endowment is that the endowment principal should be preserved and if possible enhanced to help ensure LP's financial future. The productivity of the endowment must strike a balance between the preservation of

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

principal in real terms for perpetuity and supporting a spending policy that sustains the mission of LP. To monitor the effectiveness of the investment strategy of the endowment, performance goals are established to exceed the expected real rate of return, established benchmark indices, and the median return of comparable endowment funds.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, LP relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). LP targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires LP to retain as a fund of perpetual duration or the original corpus of the permanent gift. There were no such deficiencies as of June 30, 2023 and 2022.

Endowment net asset composition by fund type as of June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,947,473	\$ 1,947,473
Board-designated endowment funds	548,018	-	548,018
	<u>\$ 548,018</u>	<u>\$ 1,947,473</u>	<u>\$ 2,495,491</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Endowment net asset composition by fund type as of June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,873,867	\$ 1,873,867
Board-designated endowment funds	527,262	-	527,262
	<u>\$ 527,262</u>	<u>\$ 1,873,867</u>	<u>\$ 2,401,129</u>

Changes in endowment net assets for the year ended June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	<u>\$ 527,262</u>	<u>\$ 1,873,867</u>	<u>\$ 2,401,129</u>
Investment return:			
Investment income	4,253	87,272	91,525
Net realized and unrealized gains (losses)	<u>33,111</u>	<u>117,661</u>	<u>150,772</u>
Total investment income (loss)	<u>37,364</u>	<u>204,933</u>	<u>242,297</u>
Withdrawals	-	(131,327)	(131,327)
Management fees	<u>(16,608)</u>	<u>-</u>	<u>(16,608)</u>
Endowment net assets, end of year	<u>\$ 548,018</u>	<u>\$ 1,947,473</u>	<u>\$ 2,495,491</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Changes in endowment net assets for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	<u>\$ 668,688</u>	<u>\$ 2,377,625</u>	<u>\$ 3,046,313</u>
Investment return:			
Investment income	22,618	128,913	151,531
Net realized and unrealized gains (losses)	<u>(142,814)</u>	<u>(507,521)</u>	<u>(650,335)</u>
Total investment income (loss)	<u>(120,196)</u>	<u>(378,608)</u>	<u>(498,804)</u>
Withdrawals	-	(125,150)	(125,150)
Management fees	<u>(21,230)</u>	<u>-</u>	<u>(21,230)</u>
Endowment net assets, end of year	<u>\$ 527,262</u>	<u>\$ 1,873,867</u>	<u>\$ 2,401,129</u>

9. Retirement Savings Plan

LP maintains a 401(k) Retirement Savings Plan (Plan) covering substantially all of the employees. Employees are eligible for admittance to the Plan after three months of service. LP will provide a matching contribution to eligible participants up to a maximum of three percent of their compensation. LP may also make an annual contribution to the Plan at the discretion of the Board of Directors. Participants are eligible to receive this discretionary contribution after completing a year of service (750 hours in a year). A discretionary contribution of 2% was provided to all eligible participants during the years ended June 30, 2023 and 2022. Participants will not be vested in either LP's matching or discretionary contribution until they complete three years of service. LP made total contributions of approximately \$123,000 and \$75,000 during the years ended June 30, 2023 and 2022, respectively.

SUPPLEMENTARY INFORMATION

LITERACY PITTSBURGH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2023

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	Federal Assistance Listing Number	Pass-Through Grantor Number	Program or Award Amount	Expenditures Through June 30, 2022	Amount Passed Through to Subrecipients	2023 Federal Expenditures	Aggregate Expenditures Through June 30, 2023
<u>Corporation for National and Community Service:</u>							
Passed through the Pennsylvania Department of Labor and Industry:							
AmeriCorps State and National	94.006	22AC240749	\$ 301,740	\$ 232,992	\$ -	\$ 23,320	\$ 256,312
AmeriCorps State and National	94.006	23AC250624	307,218	-	-	234,781	234,781
Total 94.006				232,992	-	258,101	491,093
Total Corporation for National and Community Service				232,992	-	258,101	491,093
<u>U.S. Department of Labor:</u>							
Passed through the Pennsylvania Department of Labor and Industry:							
WIOA Youth Activities	17.259	467203342	45,000	39,539	-	5,461	45,000
WIOA Youth Activities	17.259	467203343	45,000	35,747	-	9,253	45,000
Total 17.259				75,286	-	14,714	90,000
Passed through the Employment and Training Administration							
Community Projects ETA/Congressionally Directed Spending Grants	17.289	CP39450QF1	675,000	-	-	147,417	147,417
Total U.S. Department of Labor				75,286	-	162,131	237,417
<u>U.S. Department of Education:</u>							
Passed through the Pennsylvania Department of Education:							
Adult Education - Basic Grants to States	84.002	064-23-0020	1,182,629	-	378,664	1,182,629	1,182,629
Total U.S. Department of Education				-	378,664	1,182,629	1,182,629
Total Expenditures of Federal Awards				\$ 308,278	\$ 378,664	\$ 1,602,861	\$ 1,911,139

See accompanying notes to schedule of expenditures of federal awards.

LITERACY PITTSBURGH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2023

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Literacy Pittsburgh (LP) under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of LP, it is not intended to and does not present the financial position, changes in net assets, or cash flows of LP.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowed or are limited as to reimbursement. The Schedule is based upon information provided by the various funding sources to LP and other information available at the time this Schedule was prepared. For the year ended June 30, 2023, LP did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Literacy Pittsburgh

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended June 30, 2023

**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

**Board of Directors
Literacy Pittsburgh**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Literacy Pittsburgh (LP), which comprise the statement of financial position as of June 30, 2023 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LP’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LP’s internal control. Accordingly, we do not express an opinion on the effectiveness of LP’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a material weakness.

Board of Directors
Literacy Pittsburgh
Independent Auditor’s Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether LP’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

LP’s Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on LP’s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. LP’s response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LP’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mahe Duessel

Pittsburgh, Pennsylvania
December 18, 2023

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

**Board of Directors
Literacy Pittsburgh**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Literacy Pittsburgh (LP)'s compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of LP's major federal programs for the year ended June 30, 2023. LP's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, LP complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of LP and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of LP's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to LP's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on LP's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about LP's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 LP's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of LP's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of LP's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over*

Board of Directors
Literacy Pittsburgh
Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control over Compliance

compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maker Duessel

Pittsburgh, Pennsylvania
December 18, 2023

LITERACY PITTSBURGH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?

yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)?

yes none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

7. Major Programs:

Federal ALN(s)

84.002

Name of Federal Program or Cluster

Adult Education - Basic Grants to States

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

See attached Finding 2023-001.

III. Findings and questioned costs for federal awards.

No matters were reported.

LITERACY PITTSBURGH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

Findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards

Finding 2023-001: Internal Control over Financial Reporting-Account Reconciliations

Criteria: An appropriate internal control environment for financial reporting is represented by an entity's ability to fully prepare their own external financial statements, including the posting of all adjustments necessary to present financial statements in accordance with generally accepted accounting principles (GAAP).

Condition: Literacy Pittsburgh did not have adequate procedures in place to ensure that all balance sheet accounts were appropriately analyzed and reconciled on a frequent basis throughout the year. Balance sheet accounts should be analyzed and reconciled, ideally on a monthly basis, but definitely prior to year-end close. Material adjustments were needed to receivable accounts and other adjustments were needed to correctly record accounts payable, the timing of grant recognition, depreciation, and investment activity as part of the audit process that should have been identified earlier.

Cause: Adequate month-end close procedures were not established for the 2022-2023 fiscal year. Literacy Pittsburgh has also experienced personnel turnover within the Finance Department throughout the 2022-2023 fiscal year and the prior fiscal year.

Effect: As described above, a number of adjustments were needed after closed trial balances were presented for audit in order for the financial statements to be prepared in accordance with GAAP.

Questioned costs: None

Recommendation: We recommend that management establish month-end close procedures to ensure that all balance sheet accounts are appropriately analyzed and reconciled on a monthly basis. We also recommend that appropriate accounting software modules are utilized to aid in the reconciliation of all balance sheet accounts.

View of Responsible Officials and Planned Corrective Action:

Responsible Official: Chief Financial Officer (CFO)

Corrective Action Plan: Once audit adjustments are posted, the CFO will ensure beginning balances for fiscal year 2024 agree to the auditor's trial balance. The CFO will then analyze balance sheet accounts on a monthly basis thereafter. Updated month-end close procedures will be effective for January 2024.

A formal corrective action plan is filed as a separate document.

LITERACY PITTSBURGH

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2023

NONE



CORRECTIVE ACTION PLAN

December 6, 2023

Corrective action plan for the year ended June 30, 2023

Name and address of independent public accounting firm:

Maher Duessel
503 Martindale Street, Suite 600
Pittsburgh, PA 15212

Finding 2023-001: Internal Control over Financial Reporting-Account Reconciliations

Condition: Literacy Pittsburgh did not have adequate procedures in place to ensure that all balance sheet accounts were appropriately analyzed and reconciled on a frequent basis throughout the year. Balance sheet accounts should be analyzed and reconciled, ideally on a monthly basis, but definitely prior to year-end close. Material adjustments were needed to receivable accounts and other adjustments were needed to correctly record accounts payable, the timing of grant recognition, depreciation, and investment activity as part of the audit process that should have been identified earlier.

Corrective Action Plan: Once audit adjustments are posted, the CFO will ensure beginning balances for fiscal year 2024 agree to the auditor's trial balance. The CFO will then analyze and ensure the accuracy of balance sheet accounts on a monthly basis thereafter.

Updated month-end close procedures, with step-by-step instructions, will be effective for January 2024. The CFO will also contact the accounting computer software company (Abila) to inquire about using the Accounts Receivable module. The Accounts Payable module will be utilized efficiently effective as of July 1, 2023.