

Literacy Pittsburgh

Financial Statements and Supplementary Information

Years Ended June 30, 2019 and 2018
with Independent Auditor's Reports

MaherDuessel

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LITERACY PITTSBURGH

YEARS ENDED JUNE 30, 2019 AND 2018

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YEARS ENDED JUNE 30, 2019 AND 2018

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Independent Auditor's Report

**Board of Directors
Literacy Pittsburgh**

Report on the Financial Statements

We have audited the accompanying financial statements of Literacy Pittsburgh (LP), (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LP as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As described in Note 2 to the financial statements, LP adopted ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," which amends the requirements for financial statements for nonprofit entities. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 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 October 14, 2019 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.

Mahe Duessel

Pittsburgh, Pennsylvania
October 14, 2019

LITERACY PITTSBURGH

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

Assets	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 747,902	\$ 880,790
Grants and accounts receivable	147,333	59,044
Prepaid expenses	<u>47,722</u>	<u>43,067</u>
Total current assets	<u>942,957</u>	<u>982,901</u>
Fixed assets:		
Furnishings and equipment	278,398	278,398
Leasehold improvements	388,912	388,912
Less: accumulated depreciation	<u>(613,237)</u>	<u>(587,482)</u>
Total fixed assets, net of depreciation	54,073	79,828
Investments - endowment	<u>2,606,950</u>	<u>2,613,914</u>
Total Assets	<u><u>\$ 3,603,980</u></u>	<u><u>\$ 3,676,643</u></u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 81,784	\$ 27,580
Deferred revenue	7,704	24,000
Compensated absences	74,661	63,095
Note payable - current portion	<u>-</u>	<u>44,882</u>
Total Liabilities	<u>164,149</u>	<u>159,557</u>
Net Assets:		
Without donor restrictions:		
Board-designated for endowment	572,585	574,113
Undesignated	<u>478,331</u>	<u>693,300</u>
Total without donor restrictions	1,050,916	1,267,413
With donor restrictions	<u>2,388,915</u>	<u>2,249,673</u>
Total Net Assets	<u>3,439,831</u>	<u>3,517,086</u>
Total Liabilities and Net Assets	<u><u>\$ 3,603,980</u></u>	<u><u>\$ 3,676,643</u></u>

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Support and Revenues:			
Grants	\$ 2,446,935	\$ -	\$ 2,446,935
Contributions - corporations and foundations	191,034	571,729	762,763
Contributions - individual	330,540	-	330,540
Special events	122,355	-	122,355
Investment gain (loss)	16,196	69,564	85,760
Interest income	-	-	-
Program income	276,256	-	276,256
Miscellaneous	7,100	-	7,100
In-kind	25,547	-	25,547
Net assets released from restrictions:			
Satisfaction of restrictions	427,051	(427,051)	-
Endowment earnings appropriated for expenditure	75,000	(75,000)	-
Total operating support and revenues	<u>3,918,014</u>	<u>139,242</u>	<u>4,057,256</u>
Operating Expenses:			
Literacy program services	3,207,119	-	3,207,119
Management and general	691,909	-	691,909
Fundraising	235,482	-	235,482
Total operating expenses	<u>4,134,511</u>	<u>-</u>	<u>4,134,511</u>
Change in Net Assets	(216,497)	139,242	(77,255)
Net Assets:			
Beginning of year	<u>1,267,413</u>	<u>2,249,673</u>	<u>3,517,086</u>
End of year	<u>\$ 1,050,916</u>	<u>\$ 2,388,915</u>	<u>\$ 3,439,831</u>

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Support and Revenues:			
Grants	\$ 1,463,461	\$ -	\$ 1,463,461
Contributions - corporations and foundations	190,142	410,500	600,642
Contributions - individual	642,665	5,900	648,565
Special events	198,154	-	198,154
Investment gain (loss)	51,889	121,283	173,172
Interest income	54	-	54
Program income	270,505	-	270,505
Miscellaneous	779	-	779
In-kind	59,421	-	59,421
Net assets released from restrictions:			
Satisfaction of restrictions	383,346	(383,346)	-
Endowment earnings appropriated for expenditure	-	-	-
	<u>3,260,416</u>	<u>154,337</u>	<u>3,414,753</u>
Operating Expenses:			
Literacy program services	2,544,830	-	2,544,830
Management and general	505,615	-	505,615
Fundraising	212,661	-	212,661
	<u>3,263,106</u>	<u>-</u>	<u>3,263,106</u>
Change in Net Assets	(2,690)	154,337	151,647
Net Assets:			
Beginning of year	<u>1,270,103</u>	<u>2,095,336</u>	<u>3,365,439</u>
End of year	<u>\$ 1,267,413</u>	<u>\$ 2,249,673</u>	<u>\$ 3,517,086</u>

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Literacy Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,661,872	\$ 421,007	\$ 132,950	\$ 2,215,829
Payroll taxes	133,577	33,840	10,686	178,103
Fringe benefits	301,094	76,277	24,088	401,459
Total salaries and related expenses	2,096,543	531,124	167,724	2,795,391
Subcontractors	592,586	-	-	592,586
Instructional materials and fees	42,284	127	-	42,411
Investment management	-	17,724	-	17,724
Professional fees	29,430	64,738	12,237	106,405
Donated advertising	9,408	-	-	9,408
Office supplies	16,559	17,031	1,723	35,313
Printing and publications	23,738	2,965	8,052	34,755
Postage and shipping	4,226	7,424	3,913	15,563
Telephone	17,346	8,042	91	25,479
Rent and other occupancy	292,330	17,703	4,448	314,482
Insurance	-	8,692	-	8,692
Repair and maintenance	5,036	234	128	5,398
Travel	25,058	2,293	456	27,807
Staff development and training	27,862	8,009	2,481	38,352
Special events	-	-	28,300	28,300
Bank fees and interest	223	2,754	4,466	7,443
Miscellaneous	2,083	989	175	3,247
Total before depreciation and amortization	3,184,712	689,849	234,194	4,108,756
Depreciation	3,397	312	196	3,905
Amortization	19,010	1,748	1,092	21,850
Total expenses	\$ 3,207,119	\$ 691,909	\$ 235,482	\$ 4,134,511

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Literacy Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,543,403	\$ 236,478	\$ 114,313	\$ 1,894,194
Payroll taxes	130,881	20,053	9,651	160,585
Fringe benefits	279,761	32,325	22,502	334,588
Total salaries and related expenses	1,954,045	288,856	146,466	2,389,367
Subcontractors	29,405	-	-	29,405
Instructional materials and fees	38,026	264	-	38,290
Investment management	-	17,757	-	17,757
Professional fees	82,619	94,041	2,737	179,397
Donated advertising	42,125	-	-	42,125
Office supplies	38,261	32,710	9,133	80,104
Printing and publications	22,987	2,369	8,148	33,504
Postage and shipping	1,229	5,281	8,577	15,087
Telephone	18,520	1,034	565	20,119
Rent and other occupancy	254,671	17,294	4,516	276,481
Insurance	118	9,781	435	10,334
Repair and maintenance	4,787	1,109	222	6,118
Travel	20,141	1,284	143	21,568
Staff development and training	10,486	1,754	671	12,911
Special events	-	-	25,151	25,151
Bank fees and interest	218	2,550	4,231	6,999
Miscellaneous	2,159	27,230	227	29,616
Total before depreciation and amortization	2,519,797	503,314	211,222	3,234,333
Depreciation	3,526	730	457	4,713
Amortization	21,507	1,571	982	24,060
Total expenses	\$ 2,544,830	\$ 505,615	\$ 212,661	\$ 3,263,106

See accompanying notes to financial statements.

LITERACY PITTSBURGH

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (77,255)	151,647
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	25,755	28,773
Provision for doubtful accounts - note receivable	-	26,000
Net realized and unrealized (gain) loss on investments	(49,430)	(53,233)
Change in assets and liabilities:		
Grants and accounts receivable	(88,289)	(3,386)
Prepaid expenses	(4,655)	(42,023)
Accounts payable	54,204	6,286
Deferred revenue	(16,296)	(9,000)
Compensated absences	11,566	(2,887)
Net cash provided by (used in) operating activities	<u>(144,400)</u>	<u>102,177</u>
Cash Flows From Investing Activities:		
Purchase of investments	(57,028)	(171,080)
Proceeds from sales of investments	<u>113,422</u>	<u>24,487</u>
Net cash provided by (used in) investing activities	<u>56,394</u>	<u>(146,593)</u>
Cash Flows From Financing Activities:		
Collections on note receivable	-	4,000
Payments on note payable	<u>(44,882)</u>	<u>(55,878)</u>
Net cash provided by (used in) financing activities	<u>(44,882)</u>	<u>(51,878)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(132,888)	(96,294)
Cash and Cash Equivalents:		
Beginning of year	<u>880,790</u>	<u>977,084</u>
End of year	<u>\$ 747,902</u>	<u>\$ 880,790</u>

See accompanying notes to financial statements.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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. During fiscal year 2017, 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 44 employees at 12 locations in the Pittsburgh, Pennsylvania, metropolitan area. LP's volunteer tutors, AmeriCorps members, and professional staff served 5,013 and 4,651 learners in the Pittsburgh area during the years ended June 30, 2019 and 2018, 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, 2019 AND 2018

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 \$573,265 and \$715,971 in excess of FDIC insured limits at June 30, 2019 and 2018, 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, 2019 and 2018 expected to be available within one year to meet the cash needs for general expenditures:

	<u>2019</u>	<u>2018</u>
Financial assets, at year-end	\$ 3,502,185	\$ 3,553,748
Less: those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by board designation	(572,585)	(574,113)
Restricted by donor with time or purpose restrictions	(1,492,025)	(1,352,783)
Restricted for permanent endowment	(896,890)	(896,890)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 540,685</u>	<u>\$ 729,962</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Grants 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, 2019 and 2018. Grants receivable are expected to be received within one year.

Revenue Recognition

Grant revenue is recognized when earned, based on the terms of the grants. 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.

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

LP recognizes program income at the time services are provided.

Payments for program services and sponsorships received in advance are deferred.

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

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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.

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.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 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 statement of financial position.

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.

Deferred Revenue

Deferred revenue was \$7,704 and \$24,000 for the years ended June 30, 2019 and 2018, respectively, and represents advance ticket sales and sponsorships for the Literacy Luncheon. Such amounts are considered to be parts of an exchange transaction rather than a contribution.

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.

Donated Materials, Equipment, and Services

Donated materials, equipment, and services are reflected as in-kind contributions in the accompanying statements at their estimated fair values at the date of receipt.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 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.

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 Pronouncement

For the year ended June 30, 2019, LP adopted ASU 2016-14 "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," which aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The implementation of this standard was applied retrospectively to the comparative amounts presented for the year ended June 30, 2018.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Beginning net assets for fiscal years 2019 and 2018 that were previously reported as unrestricted have been reflected as net assets without donor restrictions. Beginning net assets for fiscal years 2019 and 2018 that were previously reported as temporarily restricted and permanently restricted have been reflected as net assets with donor restrictions.

Pending Accounting Pronouncements

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

ASU 2014-09, *“Revenue from Contracts with Customers (Topic 606),”* is effective for LP’s financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures.

ASU 2018-08, *“Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958),”* is effective for LP’s financial statements for the year ending June 30, 2020. This amendment provides guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions.

ASU 2016-02, *“Leases (Topic 842),”* is effective for LP’s financial statements for the year ending June 30, 2021. This amendment will 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 also will be 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.

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.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

3. In-Kind Donations

LP recognized certain in-kind revenues and expenses for rent, supplies, student materials, and special event donations, which were provided by donors or partner agencies at no cost to LP. These amounts are identified in the statements of activities as in-kind revenues.

In-kind revenues totaled \$25,547 and \$59,421 for the years ended June 30, 2019 and 2018, respectively, with the corresponding in-kind expenses recognized as donated advertising, rent and other occupancy, and special events in the statements of functional expenses.

During the years ended June 30, 2019 and 2018, LP was the beneficiary of approximately 26,350 and 24,500 hours, respectively, of instructional services provided by volunteers who donated their time for tutoring, training, and student support. No amounts have been reflected in the financial statements, since the volunteers' time does not meet the criteria for financial statement recognition.

4. 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.

The total returns on investments and cash equivalents for the year ended June 30, 2019 are summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 27,051	\$ 108,139	\$ 135,190
Net realized and unrealized gains (losses)	(10,855)	(38,575)	(49,430)
Total investment gain (loss)	<u>\$ 16,196</u>	<u>\$ 69,564</u>	<u>\$ 85,760</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

The total returns on investments and cash equivalents for the year ended June 30, 2018 are summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 40,198	\$ 79,741	\$ 119,939
Net realized and unrealized gains (losses)	11,691	41,542	53,233
Total investment gain (loss)	<u>\$ 51,889</u>	<u>\$ 121,283</u>	<u>\$ 173,172</u>

Fair values for Level 1 financial instruments are determined by quoted prices in the active market for identical financial instruments. Fair values for Level 2 financial instruments are determined by other significant observable inputs (quoted prices for similar financial instruments, interest rates, prepayment speeds, credit risk, etc.). Fair values for Level 3 financial instruments are determined by significant unobservable inputs, including LP's own assumptions in determining the fair value of financial instruments. As indicated below, at June 30, 2019 and 2018, all LP investments were valued using Level 1 inputs.

Fair values of assets measured on a recurring basis as of June 30, 2019 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	\$ 15,310	\$ 15,310	\$ -	\$ -
Mutual funds:				
Large Domestic Stock Funds	518,452	518,452	-	-
Small Domestic Stock Funds	333,158	333,158	-	-
International Stock Funds	571,808	571,808	-	-
Real Estate Investment Trusts	116,364	116,364	-	-
Short-Term Debt Funds	370,847	370,847	-	-
Intermediate Term Debt Funds	454,326	454,326	-	-
Other Equity Assets	226,685	226,685	-	-
Totals	<u>\$ 2,606,950</u>	<u>\$ 2,606,950</u>	<u>\$ -</u>	<u>\$ -</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Fair values of assets measured on a recurring basis as of June 30, 2018 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	\$ 50,814	\$ 50,814	\$ -	\$ -
Mutual funds:				
Large Domestic Stock Funds	463,287	463,287	-	-
Small Domestic Stock Funds	330,160	330,160	-	-
International Stock Funds	566,925	566,925	-	-
Real Estate Investment Trusts	109,942	109,942	-	-
Short-Term Debt Funds	337,898	337,898	-	-
Intermediate Term Debt Funds	389,419	389,419	-	-
Other Equity Assets	365,469	365,469	-	-
Totals	<u>\$ 2,613,914</u>	<u>\$ 2,613,914</u>	<u>\$ -</u>	<u>\$ -</u>

5. Grants

Grants identified in the statements of activities for the years ended June 30, 2019 and 2018 are composed of the following:

	2019	2018
Federal awards	\$ 1,381,983	\$ 999,849
Pennsylvania Department of Education - Act 143	889,184	286,000
Pennsylvania Department of Education - Family Literacy	175,000	175,000
Other	768	2,612
	<u>\$ 2,446,935</u>	<u>\$ 1,463,461</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

6. Grants Receivable

Grants receivable balances at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
PA Department of Labor - Compass AmeriCorps	\$ 47,816	\$ 46,816
Other	-	12,228
	<u>\$ 47,816</u>	<u>\$ 59,044</u>

7. Leases

LP's operations and administration are carried out in various leased and donated spaces throughout their service area. The terms for these leased facilities range from one to ten years. Rent expense incurred during the year ended June 30, 2019 totaled \$293,639, including donated space valued at \$10,800. Rent expense incurred during the year ended June 30, 2018 totaled \$254,033, including donated space valued at \$11,200.

During the fiscal year ended June 30, 2018, LP signed a lease extension with its landlord for an additional ten years commencing on November 1, 2019. Scheduled lease payments for the remaining term of the leases including extension are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 263,929
2021	272,823
2022	269,078
2023	243,967
2024	248,846
Thereafter	<u>1,385,731</u>
	<u>\$ 2,684,374</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

8. Contingencies

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as inappropriate expenditures. Such audits could lead to reimbursement to the grantor agency.

A review of two Literacy AmeriCorps subrecipient sites was completed by the Office of Inspector General (OIG) in July 2010. The Corporation for National and Community Service (CNCS) completed its review of the OIG findings in 2016 and determined that \$170,777 was due to CNCS. The amount represents disallowed program costs and improperly certified education awards related to the AmeriCorps program that was administered at those sites. Initially, LP was to fund the amount due and expected to be partially reimbursed by the respective subrecipients in the amount of \$76,620.

In November of 2016, LP entered into a settlement agreement with one of the subrecipient sites (site). Under the agreement, the site made an immediate payment to LP of \$16,620 during the year ended June 30, 2017 and entered into a \$60,000 non-interest bearing promissory note that matured on September 30, 2021. During the fiscal year ended June 30, 2018, LP received \$4,000 and wrote off the remaining balance of \$24,000.

During the year ended June 30, 2017, LP made a payment to CNCS in the amount of \$17,538 and entered into a note payable with CNCS on September 20, 2016 for the remaining amount due of \$153,239. On September 27, 2017, LP was notified by CNCS that CNCS had decided to allow the payment of \$17,538 to be offset against the note payable of \$153,239. The note was non-interest-bearing and was payable in quarterly installments of \$11,176 over a three-year period. The note payable was paid off during the fiscal year ending June 30, 2019.

9. Restrictions on Net Assets

Net asset with donor restrictions at June 30, 2019 and 2018 are available for the following purposes:

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Subject to expense for a specified purpose (or purpose and time):		
Adult and Family Literacy	\$ 63,790	\$ 84,237
Tutor Training	-	36,604
Agency Transition	14,622	55,000
ABE/ESL	24,882	11,532
Hazlewood planning	-	6,508
Jefferson planning	36,255	-
Workplace Services	165,429	7,795
GED program	677	2,262
McKeesport	-	1,226
OASIS	29,751	-
Student needs	6,808	-
Staff professional development	8,365	-
Other programs	3,971	4,708
Accumulated gains on endowment	<u>1,137,475</u>	<u>1,142,911</u>
Total subject to purpose and time restrictions	<u>1,492,025</u>	<u>1,352,783</u>
Subject to LP's spending policy and appropriation:		
Investment in perpetuity	<u>896,890</u>	<u>896,890</u>
Total net assets with donor restrictions	<u>\$ 2,388,915</u>	<u>\$ 2,249,673</u>

During the years ended June 30, 2019 and 2018, net assets in the amount of \$427,051 and \$383,346, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purpose.

During the years ended June 30, 2019 and 2018, net assets in the amount of \$75,000 and \$0, respectively, were released as endowment earnings appropriated for expenditure.

10. 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

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 of Directors-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 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.

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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, 2019 and 2018.

Endowment net asset composition by fund type as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 2,034,365	\$ 2,034,365
Board-designated endowment funds	572,585	-	572,585
	<u>\$ 572,585</u>	<u>\$ 2,034,365</u>	<u>\$ 2,606,950</u>

Endowment net asset composition by fund type as of June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 2,039,801	\$ 2,039,801
Board-designated endowment funds	574,113	-	574,113
	<u>\$ 574,113</u>	<u>\$ 2,039,801</u>	<u>\$ 2,613,914</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, beginning of year	\$ 574,113	\$ 2,039,801	\$ 2,613,914
Investment return:			
Investment income	27,051	108,139	135,190
Net realized and unrealized gains (losses)	<u>(10,855)</u>	<u>(38,575)</u>	<u>(49,430)</u>
Total investment income (loss)	<u>16,196</u>	<u>69,564</u>	<u>85,760</u>
Contributions	-	-	-
Withdrawals		(75,000)	(75,000)
Management fees	<u>(17,724)</u>	<u>-</u>	<u>(17,724)</u>
Endowment net assets, end of year	<u>\$ 572,585</u>	<u>\$ 2,034,365</u>	<u>\$ 2,606,950</u>

Changes in endowment net assets for the year ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, beginning of year	\$ 495,570	\$ 1,918,518	\$ 2,414,088
Investment return:			
Investment income	26,340	93,599	119,939
Net realized and unrealized gains (losses)	<u>11,691</u>	<u>41,542</u>	<u>53,233</u>
Total investment income (loss)	<u>38,031</u>	<u>135,141</u>	<u>173,172</u>
Withdrawals	44,413	-	44,413
Management fees	<u>(3,901)</u>	<u>(13,858)</u>	<u>(17,759)</u>
Endowment net assets, end of year	<u>\$ 574,113</u>	<u>\$ 2,039,801</u>	<u>\$ 2,613,914</u>

LITERACY PITTSBURGH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

11. 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 two 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). Participants will not be vested in either LP's matching or discretionary contribution until they complete three years of service. LP made contributions of approximately \$24,000 and \$23,000 during the years ended June 30, 2019 and 2018, respectively.

SUPPLEMENTARY INFORMATION

LITERACY PITTSBURGH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Program or Award Amount</u>	<u>Expenditures Through June 30, 2018</u>	<u>Amount Passed Through to Subrecipients</u>	<u>2019 Federal Expenditures</u>	<u>Aggregate Expenditures Through June 30, 2019</u>
<u>Corporation for National and Community Service:</u>							
Passed through the Pennsylvania Department of Labor and Industry:							
AmeriCorps - Compass	94.006	18AC204782	\$ 323,240	\$ -	\$ -	\$ 245,490	\$ 245,490
AmeriCorps - Compass	94.006	17AC195287	323,240	<u>243,497</u>	<u>-</u>	<u>28,213</u>	<u>271,710</u>
Total Corporation for National and Community Service				<u>243,497</u>	<u>-</u>	<u>273,703</u>	<u>517,200</u>
<u>U.S. Department of Education:</u>							
Passed through the Pennsylvania Department of Education:							
Adult Education - Basic Grants to States	84.002	064-19-0023	1,108,280	<u>-</u>	<u>462,500</u>	<u>1,108,280</u>	<u>1,108,280</u>
Total U.S. Department of Education				<u>-</u>	<u>462,500</u>	<u>1,108,280</u>	<u>1,108,280</u>
Total Expenditures of Federal Awards				<u>\$ 243,497</u>	<u>\$ 462,500</u>	<u>\$ 1,381,983</u>	<u>\$ 1,625,480</u>

See accompanying notes to schedule of expenditures of federal awards.

LITERACY PITTSBURGH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

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, 2019. 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, 2019, 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, 2019

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), (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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 October 14, 2019.

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) to determine the 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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 determination of financial statement amounts. 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*.

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 the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mahe Duessel

Pittsburgh, Pennsylvania
October 14, 2019

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

Board of Directors
Literacy Pittsburgh

Report on Compliance for its Major Federal Program

We have audited Literacy Pittsburgh's (LP) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on LP's major federal program for the year ended June 30, 2019. LP's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for LP's major federal program based on our audit of the types of compliance requirements referred to above. 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 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LP's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of LP's compliance.

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

Opinion on its Major Federal Program

In our opinion, LP complied, in all material respects, with the types of compliance requirements referred to above that that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of LP is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LP's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LP's 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 compliance is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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.

Mahe Duessel

Pittsburgh, Pennsylvania
October 14, 2019

LITERACY PITTSBURGH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

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:

CFDA Number(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.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

LITERACY PITTSBURGH

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

Finding 2018-001: Bank to Book Reconciliation Error

Condition: An error was noted as a result of the audit procedures performed on the year-end bank to book reconciliation of Literacy Pittsburgh's operating bank account. It was noted that twenty checks were generated and posted to the general ledger with an incorrect date of June 29, 2017, when the correct date was June 29, 2018. Correcting the error resulted in increasing accounts payable and operating expenses by \$67,037.

Status: This matter was fully corrected for the year ended June 30, 2019, consistent with the corrective action plan filed.