

DELAWARE COUNTY LITERACY COUNCIL

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**DELAWARE COUNTY LITERACY COUNCIL
TABLE OF CONTENTS
JUNE 30, 2020 AND 2019**

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	8
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>	17
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	19
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
Schedule of Findings and Recommendations	24



940 West Sproul Road, Suite 101, Springfield, PA 19064 | PHONE: 610.544.5900 | FAX: 610.544.7455

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Delaware County Literacy Council
Chester, Pennsylvania

We have audited the accompanying financial statements of Delaware County Literacy Council, (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delaware County Literacy Council as of June 30, 2020 and 2019, 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.

Other Matters

Other Information

Our audit was 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 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 March 3, 2021, on our consideration of Delaware County Literacy Council'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 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 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 Delaware County Literacy Council's internal control over financial reporting and compliance.



Brinker Simpson & Company, LLC
Springfield, Pennsylvania
March 3, 2021

**DELAWARE COUNTY LITERACY COUNCIL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

	2020	2019
ASSETS		
Current Assets		
Cash	\$ 534,167	\$ 399,497
Grants receivable	20,115	25,126
Prepaid expenses	-	1,183
Total Current Assets	554,282	425,806
Property and Equipment, Net	290,692	309,602
Total Assets	\$ 844,974	\$ 735,408
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 63,057	\$ 53,169
Grants payable	80,075	33,473
Mortgage payable - current portion	7,930	7,740
Total Current Liabilities	151,062	94,382
Mortgage Payable - Long Term Portion	102,671	109,877
Total Liabilities	253,733	204,259
Net Assets		
Without donor restrictions	591,241	386,909
Total Liabilities and Net Assets	\$ 844,974	\$ 591,168

See notes to financial statements.

DELAWARE COUNTY LITERACY COUNCIL
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support						
Contributions and grants	\$ 153,116	\$ -	\$ 153,116	\$ 147,762	\$ -	\$ 147,762
Government agency contracts and grants:						
PA State Department of Education (PDE)	1,093,351	-	1,093,351	1,066,080	-	1,066,080
Delaware County Workforce Development Board (WDB)	197,000	-	197,000	112,804	-	112,804
Program service revenue	1,742	-	1,742	3,396	-	3,396
Special events	22,000	-	22,000	16,008	-	16,008
In-kind donations	77,812	-	77,812	82,205	-	82,205
Investment income	1,445	-	1,445	898	-	898
Net assets released from restrictions	-	-	-	144,240	(144,240)	-
Total Revenues and Support	1,546,466	-	1,546,466	1,429,153	(144,240)	1,429,153
Expenses						
Program services	1,251,152	-	1,251,152	1,053,323	-	1,053,323
Management and general	179,553	-	179,553	140,024	-	140,024
Fundraising	55,669	-	55,669	39,747	-	39,747
Total Expenses	1,486,374	-	1,486,374	1,233,094	-	1,233,094
Changes in Net Assets	60,092	-	60,092	196,059	(144,240)	196,059
Net Assets, Beginning	531,149	-	531,149	190,850	144,240	335,090
Net Assets, Ending	\$ 591,241	\$ -	\$ 591,241	\$ 386,909	\$ -	\$ 531,149

See notes to financial statements.

**DELAWARE COUNTY LITERACY COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 839,962	\$ 120,465	\$ 27,764	\$ 988,191
Employee benefits	99,426	12,523	5,023	116,972
Payroll taxes	68,836	12,147	-	80,983
Fees for service	22,786	24,361	-	47,147
Rent expense	65,703	-	-	65,703
Repairs and maintenance	9,708	511	-	10,219
Utilities	14,746	776	-	15,522
Equipment lease	6,893	363	-	7,256
Insurance	12,336	649	-	12,985
Telephone	5,505	648	324	6,477
Advertising	-	-	1,667	1,667
Travel	681	-	-	681
Office supplies and expense	8,295	3,072	-	11,367
Information technology and website	20,685	2,434	1,217	24,336
Textbooks and materials	35,014	-	-	35,014
Interest expense	4,443	234	-	4,677
Depreciation	26,040	1,370	-	27,410
Training and staff development	2,757	-	-	2,757
Special events	-	-	17,671	17,671
Printing and postage	2,289	-	2,003	4,292
Volunteer related	5,047	-	-	5,047
	<u>\$ 1,251,152</u>	<u>\$ 179,553</u>	<u>\$ 55,669</u>	<u>\$ 1,486,374</u>

See notes to financial statements.

**DELAWARE COUNTY LITERACY COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 690,989	\$ 100,830	\$ 21,110	\$ 812,929
Employee benefits	82,942	10,300	4,336	97,578
Payroll taxes	49,278	8,696	-	57,974
Fees for service	28,311	12,467	-	40,778
Rent expense	59,650	-	-	59,650
Repairs and maintenance	13,777	1,259	-	15,036
Utilities	14,516	764	-	15,280
Equipment lease	4,632	244	-	4,876
Insurance	12,139	639	-	12,778
Telephone	4,500	529	265	5,294
Advertising	-	-	879	879
Travel	1,604	-	-	1,604
Office supplies and expense	17,586	1,644	655	19,885
Information technology and website	1,131	133	67	1,331
Textbooks and materials	37,427	-	-	37,427
Interest expense	5,130	270	-	5,400
Depreciation	16,023	843	-	16,866
Training and staff development	8,635	1,406	-	10,041
Special events	-	-	11,836	11,836
Printing and postage	-	-	599	599
Volunteer related	5,053	-	-	5,053
	<u>\$ 1,053,323</u>	<u>\$ 140,024</u>	<u>\$ 39,747</u>	<u>\$ 1,233,094</u>

See notes to financial statements.

**DELAWARE COUNTY LITERACY COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Changes in net assets	\$ 60,092	\$ 196,059
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	27,410	16,866
Change in:		
Prepaid expenses	1,183	7,560
Grants receivable	5,011	88,541
Grants payable	46,602	33,473
Accounts payable and accrued expenses	9,888	29,727
Net Cash Provided by Operating Activities	<u>150,186</u>	<u>372,226</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(8,500)</u>	<u>(185,649)</u>
Cash Flows From Financing Activities		
Repayments of mortgage payable	<u>(7,016)</u>	<u>(7,980)</u>
Net Change in Cash	134,670	178,597
Cash, Beginning	<u>399,497</u>	<u>220,900</u>
Cash, Ending	<u>\$ 534,167</u>	<u>\$ 399,497</u>
Supplemental Disclosures		
Interest paid	<u>\$ 4,677</u>	<u>\$ 5,400</u>

See notes to financial statements.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 1: DESCRIPTION OF OPERATIONS

Delaware County Literacy Council (“the Literacy Council”) is a private, nonprofit adult education organization that was incorporated in 1975. Adult students receive free instruction from classroom teachers or volunteer tutors in the areas of basic reading, writing, math, preparation for the high school equivalency exam, or English as a second language.

During the 2019-20 program year, the Literacy Council served 706 adults in Delaware County, located in Southeastern Pennsylvania. As a result of working with the Literacy Council, adult students achieved quantitative improvements in their lives, including improved basic skill, GED attainment, employment or retained employment, U.S. Citizenship, and post-secondary education enrollment. All adults serviced by the Literacy Council improve their lives in some way, including reading to children, becoming better informed citizens, and becoming engaged in their community.

The Literacy Council is led by a volunteer board of directors which uses a four-year strategic plan to ensure it achieves well-articulated benchmarks while using careful financial management to progress toward its mission.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

The Literacy Council follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Nonprofit Entities. For financial reporting purposes, the Literacy Council follows the reporting requirements of generally accepted accounting principles, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification into two classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follows:

Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with the core activities of the Literacy Council.

With Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Literacy Council or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts and grants for building and equipment not yet placed in service. Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for building and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue and Support

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Contributed property and equipment are recorded as fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without 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. The Literacy Council had conditional promises of \$170,000 and \$-0- as of June 30, 2020 and 2019, respectively. The conditional promise of \$170,000 relates to a contract from the Delaware County Office of Housing and Community Development for stucco and dormer repairs at 2217 Providence Avenue, Chester, PA. This work had not yet begun as of June 30, 2020. Conditional gifts received prior to the satisfaction of conditions are recorded as refundable advances. No funds have been received as of June 30, 2020 on this contract. Awards from governmental agencies for which the condition of performance was not met during award period have been recorded as grants payable in the Statements of Financial Position. Grants payable are expected to be repaid within the next fiscal year.

In-kind Contributions

The Literacy Council recognizes in-kind contributions in excess of \$500 as revenue at their estimated fair value as of the date of donation. The related offsetting expense is recorded in the period of use on the Statements of Activities and Changes in Net Assets. In-kind contributions during the years ended June 30, 2020 and 2019 totaled \$77,812 and \$82,205, respectively.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

No amounts have been reflected in the financial statements for donated services. The Literacy Council generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Literacy Council with its mission. The Literacy Council has estimated that 112 volunteers donated approximately 6,500 hours for the year ended June 30, 2020 and 107 volunteers have donated approximately 6,000 hours of their time for the year ended June 30, 2019.

Grants Receivable

Grants receivable represent amounts that are due from grants, but not collected as of June 30, 2020 and 2019. Receivable balances are due from governmental agencies and a private foundation and are expected to be collected within the next fiscal year. Management has determined that all amounts at June 30, 2020 and 2019 are fully collectible and no allowance for doubtful accounts is necessary.

Property and Equipment

Property and equipment are stated at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. The Literacy Council capitalizes all expenditures for equipment and building improvements in excess of \$500. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed. The cost of property and equipment is depreciated over the estimated useful lives of the related assets using straight-line depreciation.

Long-Lived Assets

Long-lived assets held and used by the Literacy Council are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed. No impairments were noted during the years ended June 30, 2020 and 2019.

Income Taxes

The Literacy Council is a nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code and is exempt from both federal and state income taxes.

Management evaluates the Literacy Council's tax position to determine if they meet the minimum thresholds for financial statement recognition of the benefits of uncertain tax positions taken or expected to be taken in filing tax returns. Recognition of tax benefits of an uncertain tax position is required only when the position is "more likely than not" to be sustained assuming examination by taxing authorities. Management has evaluated the Literacy Council's tax position taken or expected to be taken for all open periods and has concluded that it has no uncertain tax position as of June 30, 2020. The Literacy Council is subject to routine audits by taxing jurisdictions. At June 30, 2020, the Literacy Council's tax returns remain subject to examination for the last three years.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

The Literacy Council's principal financial instrument subject to credit risk is its cash. The Literacy Council maintains its cash in various bank accounts that, at times, may exceed federally insured limits. The Literacy Council's cash is placed with high credit quality institutions. The Literacy Council has not experienced, nor does it anticipate, any losses with respect to such accounts.

Allocation of Functional Expenses

The financial statements report certain expenses that are attributable to one or more program or supporting services, as summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Salaries, employee benefits, payroll taxes, and training and staff development are allocated based on estimates of time and effort. Fees for service are allocated based on full-time equivalent. Occupancy costs have been allocated based upon square footage. All other expenses related to more than one function are allocated based on estimates of time and costs.

Reclassification

Certain reclassifications have been made to the June 30, 2019 financial statements to conform to the June 30, 2020 presentation.

New Accounting Pronouncement Adopted in Current Year

The Literacy Council has adopted Accounting Standards Update (ASU) 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The new guidance helps distinguish if grants and contracts with resource providers are exchange transactions or contributions. Once a transaction is deemed to be a contribution, the ASU also provides guidance to help determine when a contribution is conditional and evaluates the possibility that a condition will not be met is remote. Unconditional contributions are recognized immediately and classified as either net assets with or without donor restrictions, while conditional contributions received are accounted for as a liability until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with or without restrictions. The adoption of this standard for the year ended June 30, 2020 did not result in a change to the accounting for the Literacy Council's revenue. Management believes the standard improves the usefulness and understandability of the Literacy Council's financial reporting.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2019. The Literacy Council is currently evaluating the impact of the provisions of ASC 606.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require leases to be recorded as an asset on the balance sheet for the right to use the leased asset and a liability for the corresponding lease obligation for leases with terms of more than twelve months. ASU 2016-02 is effective for non-public companies for fiscal years beginning after December 15, 2021, with early adoption permitted. The Literacy Council is currently evaluating the impact that the pronouncement may have on the financial statements.

NOTE 3: CONTRACTS AND GRANTS FROM GOVERNMENTAL AGENCIES

The Literacy Council, in the normal course of business, receives grants and enters into contracts for the performance of specific activities within certain budgetary constraints. Such projects are subject to various stipulations as to operating compliance and financial reporting. For substantially all of these programs, the expenditures are subject to review, audit, and final approval by the contracting agency. Unapproved expenses are subject to recoupment from the governmental agency.

As a result of unspent funds, the Literacy Council has recorded \$80,075 as grants payable as of June 30, 2020. As part of a routine audit by funding source, certain costs were determined to be disallowed and recorded as grants payable as of June 30, 2019 in the amount of \$33,473. The disallowed costs related to the year ended June 30, 2019 and were recorded as a reduction to contributions and grants.

NOTE 4: AVAILABILITY AND LIQUIDITY

The following represents the Literacy Council's financial assets at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash	\$ 534,167	\$ 399,497
Grants receivable	<u>20,115</u>	<u>25,126</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 554,282</u>	<u>\$ 424,623</u>

The Literacy Council has a goal to maintain financial assets, which consist of cash on hand and grants receivable without donor restrictions, to meet 90 days of normal operating expenses, which currently are, on average, approximately \$360,000. The Literacy Council has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Literacy Council also has committed a line of credit in the amount of \$140,000, which it could draw upon in the event of an unanticipated liquidity need.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2020	2019
Land	\$ 10,000	\$ 10,000
Building	94,500	94,500
Building improvements	317,165	308,665
Equipment	118,740	117,004
	540,405	530,169
Less: Accumulated depreciation	(249,713)	(220,567)
	\$ 290,692	\$ 309,602

Depreciation expense was \$27,410 and \$16,866 for the years ended June 30, 2020 and 2019, respectively.

NOTE 6: DEBT

The Literacy Council has a \$140,000 line of credit with Franklin Mint Federal Credit Union with a maturity date of December 31, 2021, at a variable interest rate equal to the Wall Street Journal U.S. Prime Rate. The line of credit is secured by the Literacy Council's building located in Chester, Pennsylvania.

There were no borrowings on the Line of Credit at June 30, 2020 and 2019.

On August 1, 2006, the Literacy Council obtained a mortgage loan in the amount of \$180,000 from The Bryn Mawr Trust Company, due August 1, 2031. The loan has a fixed interest rate of 4.03% and is payable in monthly installments of \$1,062, including interest. It is secured by land and building.

The future scheduled maturities are as follows:

For the Year Ending June 30:		
2021	\$	7,930
2022		8,283
2023		8,664
2024		9,062
2025		9,478
Thereafter		67,184
	\$	110,601

Interest expense for the years ended June 30, 2020 and 2019 totaled \$4,677 and \$5,400, respectively.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 7: DONATED SERVICES, FACILITIES AND SUPPLIES

The Literacy Council received donated professional services, facilities, equipment and supplies during its fiscal year. The value of these items is reflected within the accompanying financial statements for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Fundraising supplies and rentals	\$ 16,489	\$ 10,029
Classroom space	48,300	49,500
Internet service	2,004	2,004
Office supplies	2,389	6,380
Technology services	8,630	14,292
	<u>\$ 77,812</u>	<u>\$ 82,205</u>

NOTE 8: CONCENTRATION OF REVENUES AND OTHER SUPPORT

The Literacy Council received revenues and other support from Commonwealth of Pennsylvania Department of Education grants representing 71% and 75% of total revenues and support for the years ended June 30, 2020 and 2019, respectively. In addition, the Literacy Council received revenues and other support from the U.S. Department of Labor through the Delaware County Workforce Development Board representing 13% of total revenues and support for the year ended June 30, 2020. No such concentration existed for the year ended June 30, 2019.

NOTE 9: COMMITMENTS

The Literacy Council is leasing office equipment under a five-year operating lease, expiring March 2024, at a monthly lease base amount of \$479 with additional usage overage charges added quarterly. During the year ended June 30, 2019, the Literacy Council leased office equipment under a five-year operating lease, at a monthly lease base amount of \$205 with additional usage overage charges added quarterly. This lease expired in June 2019. Lease expense for the years ended June 30, 2020 and 2019 was \$7,256 and \$4,876, respectively.

Effective March 1, 2019, the commencement date, the Literacy Council leased additional space to provide program services at a second location. The lease is a two year operating lease, with a two year automatic renewal option. The monthly base rent is \$1,350. Annually, the base rent is subject to an incremental increase of no more than 3% on the anniversary of the commencement date. Rent expense for the years ended June 30, 2020 and 2019 was \$65,703 and \$59,650, respectively. Rent expense for the years ended June 30, 2020 and 2019 includes donated rent in the amount of \$48,300 and \$49,500, respectively.

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 9: COMMITMENTS (continued)

Future minimum rent payments are as follows:

For the Year Ending June 30:	
2021	\$ 16,548
2022	5,748
2023	5,748
2024	4,311
	\$ 32,355

NOTE 10: EMPLOYEE BENEFIT PLAN

The Literacy Council sponsors a contributory Simple IRA plan for all eligible employees. To be eligible, an employee must have earned at least \$5,000 in either of the two preceding years and is expected to be paid at least \$5,000 in the current year. As prescribed in Section 408(p) of the Internal Revenue Code, participating employee contributions are limited to \$13,500 for 2020 and \$13,000 for 2019. In addition, employees who will be age 50 by the end of 2020 and 2019 are permitted to make an additional catch up contribution of \$3,000. The Literacy Council matches the employees' contributions up to 3% of compensation or the amount of an employee's contribution, whichever is less. Matching contributions to the plan by the Literacy Council for the years ended June 30, 2020 and 2019 totaled \$16,514 and \$10,855, respectively.

NOTE 11: RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside their homes. Temporary closures of business have been ordered and numerous other businesses have temporarily closed voluntarily. These actions have expanded significantly and do not have a current end date. Given the uncertainty regarding the spread of this coronavirus, the related financial impact on the Literacy Council cannot be reasonably estimated at this time.

NOTE 12: NET ASSETS WITH DONOR RESTRICTIONS

There were no net assets with donor restrictions at June 30, 2020 and 2019.

Net assets released from restriction by incurring expenses satisfying the restricted purpose for the years ended June 30 were as follows:

	2020	2019
Satisfaction of purpose restrictions	\$ -	\$ 144,240

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 13: SUBSEQUENT EVENTS

The Literacy Council has evaluated subsequent events through March 3, 2021, the date on which the financial statements were available to be issued. The Literacy Council has determined that the following subsequent event required disclosure in the financial statements.

As stated in Note 11, Risks and Uncertainties, the financial impact of the COVID-19 pandemic on the Literacy Council cannot be reasonably estimated at this time. As a result of this uncertainty, the Literacy Council applied for and received a loan from Newtek Small Business Finance, LLC under the Paycheck Protection Program ("PPP") established by the Coronavirus Aid, Relief and Economic Security (CARES) Act. \$192,200 was received by the Literacy Council on August 6th, 2020. The loan is subject to a note dated August 6th and may be forgiven to the extent proceeds from the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. The loan bears interest at a rate of 1% and is payable in monthly installments of principal and interest over 24 months beginning 6 months from the date of the note. The loan may be repaid at any time with no prepayment penalty.



940 West Sproul Road, Suite 101, Springfield, PA 19064 | PHONE: 610.544.5900 | FAX: 610.544.7455

**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**

To the Board of Directors
Delaware County Literacy Council
Chester, Pennsylvania

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 Delaware County Literacy Council (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon March 3, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Delaware County Literacy Council'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 Delaware County Literacy Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Delaware County Literacy Council'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. Given these limitations, during our audit 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Delaware County Literacy Council'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.



Brinker Simpson & Company, LLC
Springfield, Pennsylvania
March 3, 2021



940 West Sproul Road, Suite 101, Springfield, PA 19064 | PHONE: 610.544.5900 | FAX: 610.544.7455

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Delaware County Literacy Council
Chester, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Delaware County Literacy Council's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Delaware County Literacy Council's major federal program for the year ended June 30, 2020. Delaware County Literacy Council'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 program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Delaware County Literacy Council'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 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). 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 Delaware County Literacy Council'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 the major federal program. However, our audit does not provide a legal determination of Delaware County Literacy Council's compliance.

Opinion on Each Major Federal Program

In our opinion Delaware County Literacy Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on the major federal program is not modified with respect to this matter.

Delaware County Literacy Council's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Delaware County Literacy Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Delaware County Literacy Council 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 Delaware County Literacy Council's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Delaware County Literacy Council'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 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 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.

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.

Brinker Simpson & Company, LLC

Brinker Simpson & Company, LLC
Springfield, Pennsylvania
March 31, 2021

**DELAWARE COUNTY LITERACY COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass Through Grantor Number	Grant Period	Federal CFDA Number	Federal Expenditures	Passed Through to Sub-recipients
U.S. Department of Labor (DOL)					
Passed through the County of Delaware					
WIA/WIOA Dislocated Worker Formula Grants	LIT.IMM.19	07/01/2019 - 06/30/2020	17.258	\$ 175,000	\$ -
Total CFDA #17.258				<u>175,000</u>	<u>-</u>
Total U.S. Department of Labor (DOL)				<u>175,000</u>	<u>-</u>
U.S. Department of Education (ED)					
Passed through Pennsylvania Department of Education					
Adult Education--Basic Grants to States	FA-061-19-0001	07/01/2019 - 06/30/2020	84.002A	258,143	-
Adult Education--Basic Grants to States	FA-064-20-0000	07/01/2019 - 06/30/2020	84.002A	427,991	-
Total CFDA #84.002A				<u>686,134</u>	<u>-</u>
Total U.S. Department of Education (ED)				<u>686,134</u>	<u>-</u>
U.S. Department of Health and Human Services (HHS)					
Passed through the County of Delaware					
Temporary Assistance for Needy Families (TANF)	LIT.0019.EARN	07/01/2019 - 06/30/2020	93.558	22,000	-
Total CFDA #93.558				<u>22,000</u>	<u>-</u>
Total U.S. Department of Health and Human Services (HHS)				<u>22,000</u>	<u>-</u>
Total Expenditures of Federal Awards				<u>\$ 883,134</u>	<u>\$ -</u>

**DELAWARE COUNTY LITERACY COUNCIL
NOTES TO SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (“the Schedule”) includes the federal grant activity of the Delaware County Literacy Council under the programs of the federal government for the year ended June 30, 2020. The information in the 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 for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Delaware County Literacy Council, it is not intended to, and does not, present the financial position, activities, changes in net assets, functional expenses or cash flows of the Delaware County Literacy Council.

NOTE 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 obtained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3: INDIRECT COST RATE

Delaware County Literacy Council has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**DELAWARE COUNTY LITERACY COUNCIL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2020**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued (unmodified, qualified, adverse, or disclaimer):

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor’s report issued on compliance for major programs (*unmodified, qualified, adverse, or disclaimer*):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

 X Yes No

Identification of major program:

CFDA Number

Name of Federal Program of Cluster

84.002A

Adult Education – Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

**DELAWARE COUNTY LITERACY COUNCIL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2020**

SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS

None.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS – CURRENT YEAR

Finding 2020-001: Organization did not fully implement the established cost allocation plan during the fiscal year ending June 30, 2020. Therefore, not all costs were shared among different grants consistently.

Criteria: Under the U.S. Code of Federal Regulations (CFR), Title 2: Grants and Agreements, PART 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E - Cost Principles Sec. 200.405 Allocable Costs - the cost must be allocated to the grants/projects based on the proportional benefit. If a cost benefits two or more grants/projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on a reasonable documented basis.

Condition: During our prior year audit as well as during a monitoring visit by PDE, it was discovered that certain expenses were allocated to grants on an undocumented basis. Based on testing performed for current year expenditures, the new cost allocation plan was not fully implemented prior to fiscal year end June 30, 2020.

Questioned Costs: None

Cause: Certain expenses were evenly allocated to several grants, with no documented basis for the allocation early during fiscal year prior to implementation of new cost allocation plan. Delaware County Literacy Council was unable to fully implement new cost allocation plan by end of fiscal year.

Effect: DCLC is not in compliance with 2 CFR Sec. 200.405 - Allocable Costs.

Recommendation: We recommend that DCLC work to implement the prepared written supported allocation calculations for all direct and indirect costs that benefit two or more grants or programs. Specifically, DCLC should review expenses prior to full implementation of cost allocation plan and make any necessary adjustments.

Management Response: See Management Response on Page 27.

Schedule of Prior Year Findings

Finding Number	Finding Summary	Status	Additional Information
2019-001	Unapproved computer costs charged to grants.	Corrected	Questioned costs fully repaid.
2019-002	Organization does not have a specific allocation basis for certain costs shared amount different grants.	Partially Corrected	Cost allocation plan has been approved by Organization and funding agency. However, cost allocation plan was not fully implemented as of June 30, 2020 as a result of COVID-19.

Management’s Response to Audit Finding

Finding Number	Finding Summary	Status	Additional Information
2020-001	Organization does not have a specific allocation basis for certain costs shared amount different grants.	Partially Corrected	Management has a process to review costs charged to awards to ensure that they are appropriate, reasonable and allocable. However, as noted, there was no formal approved policy and procedure to consistently allocate costs that supported multiple awards until midway through fiscal year 2020. Challenges with remote work due to COVID-19 delayed full implementation and consistent documentation was not maintained. Management has taken action to ensure the policy and procedures are communicated to all responsible employees and that allocations of all direct and indirect costs that impact two or more grants or programs are fully documented accordingly.



Corrective Action Plan

<u>Finding Number</u>	<u>Responsible Person</u>	<u>Anticipated Correction Date</u>	<u>Corrective Action Plan</u>
2020-001	Elizabeth Brenner, Interim Executive Director	12/31/2020	Management has a process to review costs charged to awards to ensure that they are appropriate, reasonable and allocable. However, as noted, there was no formal approved policy and procedure to consistently allocable costs that supported multiple awards until midway through fiscal year 2020. Challenges with remote work due to COVID-19 delayed full implementation and consistent documentation was not maintained. Management has taken action to ensure the policy and procedures are communicated to all responsible employees and that allocations of all direct and indirect costs that impact two or more grants or programs are fully documented accordingly.