



August 28, 2019

P.O. Box 2379
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To the Board of Directors
Gaston Literacy Council, Inc.
Gastonia, North Carolina

In planning and performing our audit of the statement of revenues and expenses – modified cash basis of Gaston Literacy Council, Inc. as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered Gaston Literacy Council, Inc.’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Council’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Council’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We consider the following deficiency in Gaston Literacy Council, Inc.’s internal control to be a material weakness:

The Council’s accounting and administrative staff is not large enough to permit an adequate segregation of duties for an effective system of internal accounting control in all respects. The concentration of closely related duties and responsibilities, such as recording and processing deposits, check approving and signing, preparing journal entries and financial statements by a small staff makes it impossible to establish an adequate system of internal controls. While we do recognize that the Council is not large enough to permit a segregation of duties for an effective system of internal accounting control in all material respects, we believe that it is important that management and the Board be aware that the condition does exist.

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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.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the June 30, 2019 financial statement, and this report does not affect our report on that financial statement dated August 28, 2019. We have not considered internal control since the date of our report.

This communication is intended solely for the information and use of Gaston Literacy Council, Inc.'s Board of Directors, management, and others within the Council, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity of serving as auditors for the Council and look forward to working with you in the future.

Butler & Stowe



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August 28, 2019

To the Board of Directors
Gaston Literacy Council, Inc.
Gastonia, North Carolina

We have audited the statement of revenues and expenses – modified cash basis for the year ended June 30, 2019, and have issued our report thereon dated August 28, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gaston Literacy Council, Inc. are described in Note 1 to the financial statement. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The Council did not have any sensitive estimates affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

To the Board of Directors
Gaston Literacy Council, Inc.
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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representative

We have requested certain representations from management that are included in the management representation letter dated August 28, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Directors
Gaston Literacy Council, Inc.
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This information is intended solely for the use of the Finance Committee, Board of Directors, and management of Gaston Literacy Council, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Butler & Stowe

GASTON LITERACY COUNCIL, INC.

GASTONIA, NORTH CAROLINA

FINANCIAL STATEMENT

Years Ended

June 30, 2019 and 2018

GASTON LITERACY COUNCIL, INC.

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August 28, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Gaston Literacy Council, Inc.
Gastonia, North Carolina

We have audited the accompanying financial statements of Gaston Literacy Council, Inc. (a nonprofit organization), which comprise the statements of revenues and expenses – modified cash basis for the years ended June 30, 2019 and 2018, 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. 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 statements of revenues and expenses – modified cash basis for the years ended June 30, 2019 and 2018, in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles accepted in the United States of America. Our opinion is not modified with respect to that matter.

Butler & Stouck

GASTON LITERACY COUNCIL, INC.

STATEMENTS OF REVENUES AND EXPENSES- MODIFIED CASH BASIS

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUES		
Grants	\$ 113,589	\$ 109,797
United Way	100,181	105,931
Donations	132,091	71,273
Special events	63,877	63,900
Investment income	33,197	30,819
Interest	712	189
Miscellaneous	659	1,058
TOTAL REVENUES	<u>444,306</u>	<u>382,967</u>
EXPENSES		
Salaries	234,193	262,349
Payroll taxes	17,999	20,177
Independent contractor	10,555	6,969
Retirement plan	4,229	2,706
Advertising and marketing	550	925
Professional development	523	
Dues	1,181	1,485
Literacy materials	16,943	19,576
Printing and publications	2,223	2,880
Professional fees	7,041	6,728
Special events expense	9,805	7,395
Insurance	31,818	35,272
Office expense	5,335	6,788
Telephone	4,428	7,096
Travel	669	2,181
Occupancy	24,622	24,612
Equipment expense	14,826	
Depreciation expense	3,160	6,139
Interest expense	40	
Miscellaneous	769	747
TOTAL EXPENSES	<u>390,909</u>	<u>414,025</u>
NET INCOME (LOSS)	53,397	(31,058)
FUND BALANCE, beginning of year	<u>99,463</u>	<u>130,521</u>
FUND BALANCE, end of year	<u>\$ 152,860</u>	<u>\$ 99,463</u>

See accompanying notes to financial statements.

GASTON LITERACY COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

Gaston Literacy Council, Inc. (the Council) is a nonprofit organization whose purpose is to increase literacy in Gaston County by providing basic skills assessments, instruction, materials to students, tutor training and materials to volunteers.

Basis of accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. Under that basis, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. That basis differs from generally accepted accounting principles primarily because the Council has not recognized accounts receivable from third party agencies and accounts payable to vendors and their related effects on earnings in the accompanying financial statements.

Income tax status

The Council is organized under Section 501(c)(3) of the Internal Revenue Code as a nonprofit, tax-exempt organization. In addition, the State of North Carolina has granted the Council tax-exempt status.

Accounting principles generally accepted in the United States of America require the Council's management to evaluate tax positions taken by the Council and disclose in the financial statements if the Council has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Council, and has concluded that as of June 30, 2019, there are no uncertain tax positions taken or expected to be taken that would require disclosure in the financial statements. The Council is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2015.

Cash and cash equivalents

The Council classifies cash and cash equivalents as cash on hand, cash in checking and unrestricted savings accounts, all short-term, highly liquid investments that are both readily convertible into cash and so close to maturity that the risk of changes in value because of interest-rate fluctuations is insignificant and investments with original maturities of three months or less.

GASTON LITERACY COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment is recorded at cost if purchased or fair value if donated. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets. It is the Council's policy to capitalize all assets over \$2,500.

Use of estimates

The preparation of financial statements in conformity with modified cash accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated services

The Council received certain donated services. No amounts have been reflected in the statement for such services because there is no objective basis available to measure the value of such services.

Subsequent events

Management has evaluated subsequent events through August 28, 2019, the date the financial statements were available to be issued.

NOTE 2: ENDOWMENT FUND

The Endowment Fund is with the Community Foundation of Gaston County. The Endowment Fund is maintained for the purpose of generating and distributing earnings.

The entire fund is available to the Council upon request by its Board of Directors and approval by the Foundation's Board of Directors.

Financial information on the fund for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance – fair market value	\$828,495	\$ 817,201
Withdrawals – grants	(33,197)	(30,819)
Net earnings (loss)	<u>20,327</u>	<u>42,113</u>
Ending balance – fair market value	<u>\$815,625</u>	<u>\$ 828,495</u>

Investment income of \$33,197 and \$30,819 is included in the accompanying statement of revenues and expenses – modified cash basis for the years ended June 30, 2019 and 2018, respectively.

GASTON LITERACY COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 3: DONATED FACILITIES, OCCUPANCY EXPENSES AND PROFESSIONAL SERVICES

The facilities have an estimated rental annual value of \$62,000 for the years ended June 30, 2019 and 2018. Support and rent have not been increased to reflect the estimated value of the contributed facilities in excess of the user fee paid discussed below.

The Council has entered into an agreement to pay the building's owner a fixed monthly user fee of \$900 per month. The Council also pays 100% of interior insurance costs. The Council pays all of the utility costs with the exception of water which is included in rent. The agreement expires December 2023. The Council paid user fees of \$10,800 and \$10,800 for the years ended June 30, 2019 and 2018, respectively.

Minimum monthly user fees remaining under the agreement are as follows:

Years Ended <u>June 30,</u>	
2020	\$ 10,800
2021	10,800
2022	10,800
2023	10,800
2024	5,400

The Council also receives donated services from a vendor who provides internet website creation and webhosting services. The estimated annual value of these services was \$360 for the years ended June 30, 2019 and 2018, respectively. Support and professional fees have not been increased to reflect the estimated value of these contributed services.

GASTON LITERACY COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 48,296	\$ 48,296
Equipment	19,291	15,659
Leasehold improvements	4,321	4,321
Computer equipment	<u>47,989</u>	<u>47,989</u>
	119,897	116,265
Less: accumulated depreciation	<u>(109,249)</u>	<u>(106,088)</u>
	<u>\$ 10,648</u>	<u>\$ 10,177</u>

Depreciation expense for property and equipment totaled \$3,160 and \$6,139 for the years ended June 30, 2019 and 2018, respectively.

NOTE 5: CAPITAL LEASE OBLIGATION

The Council has entered into the following capital lease for a copier:

Capital lease payable to an equipment leasing company for acquisition of equipment, payable in 48 monthly payments of \$96, including interest imputed at 12.188%. Matures May 2023.	\$ 3,573
Less current portion	<u>758</u>
	<u>\$ 2,815</u>

Obligations under the capital lease have been recorded in the accompanying financial statements at the present value of future minimum lease payments. The capitalized cost and accumulated depreciation of this equipment at December 31, 2019 was \$3,633 and \$30, respectively.

Future minimum payments under the capital lease is as follows:

2020	\$ 1,152
2021	1,152
2022	1,152
2023	<u>1,056</u>
	4,512
Less amount representing interest	<u>939</u>
Present value of net minimum capital lease payments	<u>\$ 3,573</u>

GASTON LITERACY COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 6: DEFINED CONTRIBUTION PLAN

The Council has a defined contribution plan covering all eligible employees who have completed at least six months of continuous service and are a minimum of 21 years old. Contributions to the plan totaled \$4,229 and \$2,706 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7: RESTRICTED CASH

Cash in the amount of \$10,991 was restricted for scholarships at June 30, 2019.

NOTE 8: CONCENTRATION OF FUNDING

Two donors provided approximately \$214,000 and \$215,000 in funding to the Council in 2019 and 2018, respectively. Funding received from these donors constituted approximately 48% and 56% of total revenues for the years ended June 30, 2019 and 2018, respectively.