



August 26, 2020

P.O. Box 2379  
109 W. Third Ave.  
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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, 2020, 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.

To the Board of Directors  
Gaston Literacy Council, Inc.  
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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, 2020 financial statement, and this report does not affect our report on that financial statement dated August 26, 2020. 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 26, 2020

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, 2020, and have issued our report thereon dated August 26, 2020. 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 2020. 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 26, 2020.

### **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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August 26, 2020

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 S. Stowe*

# GASTON LITERACY COUNCIL, INC.

GASTONIA, NORTH CAROLINA

\_\_\_\_\_ FINANCIAL STATEMENT

Years Ended

June 30, 2020 and 2019

**GASTON LITERACY COUNCIL, INC.**

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August 26, 2020

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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, 2020 and 2019, 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, 2020 and 2019, 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 & Stowe*

**GASTON LITERACY COUNCIL, INC.**

**STATEMENTS OF REVENUES AND EXPENSES- MODIFIED CASH BASIS**

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>REVENUES</b>		
Grants	\$ 119,614	\$ 113,589
United Way	99,759	100,181
Donations	100,044	132,091
Special events	33,403	63,877
Investment income		33,197
Interest	913	712
Miscellaneous	1,053	659
<b>TOTAL REVENUES</b>	<u>354,786</u>	<u>444,306</u>
<b>EXPENSES</b>		
Salaries	264,547	234,193
Payroll taxes	20,337	17,999
Independent contractor	6,815	10,555
Retirement plan	4,348	4,229
Advertising and marketing	25	550
Professional development		523
Dues	1,079	1,181
Literacy materials	32,673	16,943
Printing and publications	1,889	2,223
Professional fees	7,470	7,041
Special events expense	1,051	9,805
Insurance	21,444	31,818
Office expense	8,327	5,335
Telephone	3,752	4,428
Travel	403	669
Occupancy	24,879	24,622
Equipment expense		14,826
Depreciation expense	2,621	3,160
Interest expense	431	40
Miscellaneous	568	769
<b>TOTAL EXPENSES</b>	<u>402,659</u>	<u>390,909</u>
<b>NET INCOME (LOSS)</b>	<u>(47,873)</u>	<u>53,397</u>
<b>FUND BALANCE, beginning of year</b>	<u>152,860</u>	<u>99,463</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 104,987</u>	<u>\$ 152,860</u>

**See accompanying notes to financial statements.**

**GASTON LITERACY COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2020 and 2019

**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, 2020, 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 ended prior to June 30, 2017.

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, 2020 and 2019

**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 26, 2020, 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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance – fair market value	\$815,625	\$ 828,495
Withdrawals – grants		( 33,197)
Net earnings (loss)	<u>6,961</u>	<u>20,327</u>
Ending balance – fair market value	<u>\$822,586</u>	<u>\$ 815,625</u>

Investment income of \$0 and \$33,197 is included in the accompanying statement of revenues and expenses – modified cash basis for the years ended June 30, 2020 and 2019, respectively.

**GASTON LITERACY COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2020 and 2019

**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, 2020 and 2019. 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, 2020 and 2019, respectively.

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

Years Ended <u>June 30,</u>	
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, 2020 and 2019, 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, 2020 and 2019

**NOTE 4: PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<u>2020</u>	<u>2019</u>
Furniture and fixtures	\$ 48,296	\$ 48,296
Equipment	19,291	19,291
Leasehold improvements	4,321	4,321
Computer equipment	<u>47,989</u>	<u>47,989</u>
	119,897	119,897
Less: accumulated depreciation	<u>( 111,869)</u>	<u>( 109,249)</u>
	<u>\$ 8,028</u>	<u>\$ 10,648</u>

Depreciation expense for property and equipment totaled \$2,621 and \$3,160 for the years ended June 30, 2020 and 2019, 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.	\$ 2,816
Less current portion	<u>856</u>
	<u>\$ 1,960</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 June 30, 2020 was \$3,633 and \$394, respectively.

Future minimum payments under the capital lease is as follows:

2021	\$ 1,152
2022	1,152
2023	<u>1,056</u>
	3,360
Less amount representing interest	<u>544</u>
Present value of net minimum capital lease payments	<u>\$ 2,816</u>

**GASTON LITERACY COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2020 and 2019

**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 \$4,348 and \$4,229 for the years ended June 30, 2020 and 2019, respectively.

**NOTE 7: SCHOLARSHIPS**

The Endowment Fund has a balance of \$822,586 (See Note 2). This balance includes \$10,008 that is restricted for scholarships at June 30, 2020.

**NOTE 8: CONCENTRATION OF FUNDING**

Two donors provided approximately \$219,000 and \$214,000 in funding to the Council in 2020 and 2019, respectively. Funding received from these donors constituted approximately 53% and 48% of total revenues for the years ended June 30, 2020 and 2019, respectively.

**NOTE 9: PAYCHECK PROTECTION PROGRAM (PPP LOAN)**

On May 1, 2020, the Council received \$56,625 from the Paycheck Protection Program in the form of a loan with an interest rate of 1%. Under the guidelines established by The Small Business Administration, this loan will be forgiven if the proceeds are used to pay certain qualified expenses. As of the date of these financial statements, the loan remains on the books of the Council at the original amount.