

# GASTON LITERACY COUNCIL, INC.

GASTONIA, NORTH CAROLINA

FINANCIAL STATEMENT

Years Ended

June 30, 2017 and 2016

GASTON LITERACY COUNCIL, INC.

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October 18, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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 & Stone*

**GASTON LITERACY COUNCIL, INC.**

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

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Grants		
United Way	\$ 101,141	\$ 105,767
Donations	119,613	100,586
Special events	79,404	62,894
Investment income	71,191	79,525
Interest	31,254	32,706
Miscellaneous	331	269
	1,089	1,446
<b>TOTAL REVENUES</b>	404,023	383,193
<b>EXPENSES</b>		
Salaries	256,138	242,003
Payroll taxes	19,737	18,501
Independent contractor		8,178
Retirement plan	4,663	6,181
Advertising and marketing	850	922
Professional development	184	
Dues	612	910
Literacy materials	21,172	20,337
Printing and publications	2,316	1,578
Professional fees	6,265	5,225
Special events expense	11,983	12,656
Insurance	35,780	45,348
Office expense	5,791	5,336
Telephone	5,370	4,977
Travel	1,133	1,263
Occupancy	24,972	25,421
Depreciation expense	7,335	7,485
Miscellaneous	888	563
	405,189	406,884
<b>NET INCOME (LOSS)</b>	(1,166)	(23,691)
<b>FUND BALANCE, beginning of year</b>	131,687	155,378
<b>FUND BALANCE, end of year</b>	\$ 130,521	\$ 131,687

See accompanying notes to financial statements.

**GASTON LITERACY COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2017 and 2016

**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, 2017, 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 2014.

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, 2017 and 2016

**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 \$250.

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 October 18, 2017, 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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance – fair market value	\$773,788	\$ 837,949
Deposits - contributions		1,700
Withdrawals – grants	( 31,254)	( 32,706)
Net earnings (loss)	<u>74,667</u>	<u>( 33,155)</u>
Ending balance – fair market value	<u>\$817,201</u>	<u>\$ 773,788</u>

Investment income of \$31,254 and \$32,706 is included in the accompanying statement of revenues and expenses – modified cash basis for the years ended June 30, 2017 and 2016, respectively.

**GASTON LITERACY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2017 and 2016

**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, 2017 and 2016. 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 2018. The Council paid user fees of \$10,800 and \$10,800 for the years ended June 30, 2017 and 2016, respectively.

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

Years Ended <u>June 30,</u>	
2018	\$ 10,800
2019	<u>5,400</u>
	<u>\$ 16,200</u>

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, 2017 and 2016, 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, 2017 and 2016

**NOTE 4: PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 48,296	\$ 48,296
Equipment	15,659	15,659
Leasehold improvements	4,321	4,321
Computer equipment	<u>47,989</u>	<u>47,575</u>
	116,265	115,851
Less: accumulated depreciation	<u>( 99,950)</u>	<u>( 92,615)</u>
	<u>\$ 16,315</u>	<u>\$ 23,236</u>

Depreciation expense for property and equipment totaled \$7,335 and \$7,485 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 5: 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 \$4,663 and \$6,181 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 6: RESTRICTED CASH**

Cash in the amount of \$10,008 was restricted for scholarships at June 30, 2017.

**NOTE 7: CONCENTRATION OF FUNDING**

Two donors provided approximately \$220,000 and \$205,000 in funding to the Council in 2017 and 2016, respectively. Funding received from these donors constituted approximately 55% and 54% of total revenues for the years ended June 30, 2017 and 2016, respectively.