
SACRAMENTO LITERACY FOUNDATION

SACRAMENTO
LITERACY
FOUNDATION



FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2023 AND 2022

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SACRAMENTO LITERACY FOUNDATION
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of
Sacramento Literacy Foundation
Sacramento, California

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of Sacramento Literacy Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sacramento Literacy Foundation as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sacramento Literacy Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sacramento Literacy Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sacramento Literacy Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sacramento Literacy Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.


EIK Grove, CA
January 12, 2024

SACRAMENTO LITERACY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 and 2022

ASSETS	<u>2023</u>	<u>2022</u>
Current Assets		
Cash and cash equivalents (Note 3)	\$ 460,620	\$ 356,185
Investments (Note 4 and 5)	344,070	329,181
Contributions receivable (Note 6)	287,500	52,683
Other assets	<u>2,513</u>	<u>4,669</u>
Total Current Assets	<u>1,094,703</u>	<u>742,718</u>
Non-Current Assets		
Investments (Note 4 and 5)	1,066,683	1,023,283
Contributions receivable, net of discount (Note 6)	528,557	1,743
Right-of-use-asset - operating lease (Note 12)	99,798	-
Fixed Assets:		
Equipment and software	9,414	8,609
Less: accumulated depreciation	<u>(8,450)</u>	<u>(5,894)</u>
Total Fixed Assets	964	2,715
Total Non-Current Assets	<u>1,696,002</u>	<u>1,027,741</u>
Total Assets	<u>\$ 2,790,705</u>	<u>\$ 1,770,459</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 7,955	\$ 18,214
Accrued vacation	10,433	13,294
Current portion of lease obligation - operating (Note 12)	<u>24,287</u>	<u>-</u>
Total Current Liabilities	<u>42,675</u>	<u>31,508</u>
Noncurrent Liabilities		
Long-term lease obligation - operating (Note 12)	<u>75,511</u>	<u>-</u>
Total Noncurrent Liabilities	<u>75,511</u>	<u>-</u>
Total Liabilities	<u>118,186</u>	<u>31,508</u>
Net Assets		
Without donor restrictions (Note 1 and 9)	1,681,546	844,623
With donor restrictions (Note 1 and 8)	<u>990,973</u>	<u>894,328</u>
Total Net Assets	<u>2,672,519</u>	<u>1,738,951</u>
Total Liabilities and Net Assets	<u>\$ 2,790,705</u>	<u>\$ 1,770,459</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LITERACY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Contributions	\$ 1,013,519	\$ 137,976	\$ 1,151,495
Special event revenue	160,025	110,000	270,025
Less direct event expenses	(72,546)	-	(72,546)
Investment income (loss), net	67,646	57,986	125,632
Grants	35,000	-	35,000
In-kind contributions (Note 13)	<u>15,000</u>	<u>-</u>	<u>15,000</u>
 Total Revenue, Support, and Gains	 <u>1,218,644</u>	 <u>305,962</u>	 <u>1,524,606</u>
 Net assets released from restriction (Note 8)	 <u>209,317</u>	 <u>(209,317)</u>	 <u>-</u>
 Total Revenue, Support and Gains	 <u>1,427,961</u>	 <u>96,645</u>	 <u>1,524,606</u>
EXPENSES			
Program Services	452,876	-	452,876
Management and general	41,158	-	41,158
Fundraising	<u>97,004</u>	<u>-</u>	<u>97,004</u>
 Total Expenses	 <u>591,038</u>	 <u>-</u>	 <u>591,038</u>
 Change in net assets	 836,923	 96,645	 933,568
 Net Assets - Beginning of year	 <u>844,623</u>	 <u>894,328</u>	 <u>1,738,951</u>
 Net Assets - End of year	 <u>\$ 1,681,546</u>	 <u>\$ 990,973</u>	 <u>\$ 2,672,519</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LITERACY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Contributions	\$ 217,196	\$ 20,062	\$ 237,258
Special event revenue	180,800	141,050	321,850
Less direct event expenses	(74,772)	-	(74,772)
Investment income (loss), net	(89,824)	(150,179)	(240,003)
In-kind contributions (Note 13)	<u>14,815</u>	<u>-</u>	<u>14,815</u>
Total Revenue, Support, and Gains	<u>248,215</u>	<u>10,933</u>	<u>259,148</u>
Net assets released from restriction (Note 8)	<u>247,139</u>	<u>(247,139)</u>	<u>-</u>
Total Revenue, Support and Gains	<u>495,354</u>	<u>(236,206)</u>	<u>259,148</u>
EXPENSES			
Program Services	492,536	-	492,536
Fundraising	34,226	-	34,226
Management and general	<u>101,636</u>	<u>-</u>	<u>101,636</u>
Total Expenses	<u>628,398</u>	<u>-</u>	<u>628,398</u>
Change in Net Assets Before Effects of Unusual Transaction	(133,044)	(236,206)	(369,250)
Unusual Transaction:			
Transfers out per Settlement Agreement (Note 13)	<u>-</u>	<u>(47,125)</u>	<u>(47,125)</u>
Change in net assets	(133,044)	(283,331)	(416,375)
Net Assets - Beginning of year	<u>977,667</u>	<u>1,177,659</u>	<u>2,155,326</u>
Net Assets - End of year	<u>\$ 844,623</u>	<u>\$ 894,328</u>	<u>\$ 1,738,951</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LITERACY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2022 Total</u>
Salaries and wages	\$ 141,007	\$ 9,156	\$ 32,963	\$ 183,126
Advertising and promotion	-	-	213	213
Bank charges	3,410	221	797	4,428
Depreciation	1,968	128	460	2,556
Donor database	1,707	-	-	1,707
Dues, subscriptions and education	3,491	227	816	4,534
Grants	222,569	-	-	222,569
Insurance	7,532	489	1,761	9,782
Miscellaneous	6,088	357	1,284	7,729
Occupancy and storage	15,685	1,018	3,667	20,370
Office supplies	6,822	443	1,595	8,860
Postage and shipping	-	-	8,531	8,531
Printing and publications	-	-	24,856	24,856
Professional services:				
Audit	13,067	848	3,055	16,970
Consulting	13,144	74	267	13,485
Legal	-	27,714	-	27,714
Payroll	1,214	79	284	1,577
Program expenses	8,950	-	15,000	23,950
Telephone	4,654	302	1,089	6,045
Travel	1,568	102	366	2,036
	<u>\$ 452,876</u>	<u>\$ 41,158</u>	<u>\$ 97,004</u>	<u>\$ 591,038</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LITERACY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2021 Total</u>
Salaries and wages	\$ 179,847	\$ 24,304	\$ 38,886	\$ 243,037
Advertising and promotion	-	-	1,636	1,636
Bank charges	4,941	668	1,068	6,677
Depreciation	1,402	189	303	1,894
Donor database	-	-	6,185	6,185
Dues, subscriptions and education	3,410	461	737	4,608
Grants	247,384	-	-	247,384
Insurance	9,199	1,243	1,989	12,431
Miscellaneous	1,575	213	341	2,129
Occupancy and storage	13,207	1,785	2,856	17,848
Office supplies	4,834	653	1,045	6,532
Other program expenses	-	-	14,815	14,815
Postage and shipping	-	-	9,272	9,272
Printing and publications	-	-	18,441	18,441
Professional services:				
Audit	11,914	1,610	2,576	16,100
Consulting	724	98	156	978
Legal	-	2,025	-	2,025
Payroll	774	387	387	1,548
Program expenses	8,962	-	-	8,962
Telephone	3,816	516	825	5,157
Travel	547	74	118	739
	<u>\$ 492,536</u>	<u>\$ 34,226</u>	<u>\$ 101,636</u>	<u>\$ 628,398</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LITERACY FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 and 2022

	2023	2022
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 933,568	\$ (369,250)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	2,556	1,894
Unrealized (gain) loss	(94,468)	256,565
Change in operating assets and liabilities:		
Contributions receivable	(761,631)	17,846
Other assets	2,340	1,124
Accounts payable	(10,259)	(4,627)
Accrued vacation	(2,861)	4,443
Other liabilities	-	(822)
NET CASH PROVIDED BY PROVIDED BY (USED FOR) OPERATING ACTIVITIES	69,245	(92,827)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of fixed assets	(805)	(638)
Purchases of investments	-	(354,387)
Transfers out per Settlement Agreement	-	(47,125)
Proceeds from sales and maturities used for investments	36,180	239,512
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	35,375	(162,638)
NET CHANGE IN CASH AND CASH EQUIVALENTS	104,620	(255,465)
CASH AND CASH EQUIVALENTS, Beginning of year	356,185	611,650
CASH AND CASH EQUIVALENTS, End of year	\$ 460,620	\$ 356,185
NONCASH INVESTING ACTIVITIES:		
Increase in right-of-use asset and lease obligation	\$ 99,798	

The accompanying notes are an integral part of these financial statements.

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Sacramento Literacy Foundation (the Foundation) is a California nonprofit public benefit corporation incorporated on June 11, 1984. Through September 2020, the operations of the Foundation were focused on raising funds for the Sacramento Public Library Authority, a joint Powers Authority between the County of Sacramento and the cities of Citrus Heights, Galt, Isleton, Elk Grove, Rancho Cordova, and Sacramento, and since that time has been developing a new strategy to raise funds for literacy programs and initiatives in the Sacramento Region.

The Foundation's mission includes supporting and/or creating systems and programs that increase literacy in the community by raising private funds. The Foundation's activities include endowment building, Authors on the Move annual event, the Walk4Literacy annual event, and the Community Literacy Map. The Foundation has been working on expanding and diversifying its literacy program partners and expects to have additional literacy activities in future years.

Authors on the Move gives guests an evening of literary engagement through direct dialogue with up to 24 regional authors during an evening of fine dining. Guests have the opportunity to purchase the most recent book of each author. During the live auction guests can contribute to literacy programming. Authors on the Move was held on March 11, 2023.

The Walk4Literacy event brings attention and resources to Sacramento's literacy shortfall while providing parents with a family literacy festival at the end of the walk where they can learn about and access literacy resources for their children. The Walk4Literacy was held on October 1, 2022. Revenue and expenses related to Walk4Literacy are recorded as net assets with donor restrictions. Walk4Literacy provides the Foundation with opportunities for new donor engagement, critical to the Foundation's continued growth, and opportunities to strengthen relationships across the literacy community.

The Community Literacy Map remains a valuable resource to professionals and educators in need of local literacy data, and/or school site data. This year we updated the map to show the Affordable Housing Communities in Sacramento in line with the All-America City Award 2022. We also updated the map to include all California public elementary schools as an initial step to exploring opportunities to expand the map through a fee-for-service model.

Basis of Presentation and Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and are available for general operations.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Foundation and /or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Foundation considers as cash equivalents all highly liquid investments which can be converted into known amounts of cash and have a maturity period of 3 months or less at the time of purchase.

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at estimated fair market value on the statement of financial position. Fair values of investments are estimated based on quoted market prices where available. Net investment income (Loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Contributions Receivable

Unconditional promises to give are recorded as contributions receivable and revenue when received. The Foundation distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Management believes all contributions are collectible therefore there is no allowance recorded. Contributions to be received in future periods are discounted at an appropriate rate. Amortization of discounts on multi-year pledges is recorded as additional contribution revenue as either with or without donor restrictions based on any donor-imposed restrictions, if any, on the related contributions.

Fixed Assets

Acquisitions of fixed assets of \$1,000 or more are capitalized. Fixed assets are recorded at acquisition cost, or at estimated fair market value as of the date of donation. Depreciation expense is provided on a straight-line basis over the estimated useful life of the respective asset, ranging from 3 to 5 years. Maintenance and repairs are charged to expenses as incurred. Depreciation expense for the years ended June 30, 2023 and 2022 amounted to \$2,556 and \$1,894, respectively.

Revenue and Revenue Recognition

Contributions are recognized in full when received or unconditionally promised. All contributions are considered available for the Foundation's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as restricted support and increase the respective class of net assets. Contributions received with restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions.

Investment income that is limited to specific uses by donor restrictions is reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the income is recognized.

Special event revenue is recognized in the period the event is held.

In-kind Contributions and Contributed Services

Contributed nonfinancial assets include donated professional services, donated equipment, and other in-kind contributions which are recorded at the respective fair values of the goods or services received (Note 13). In addition to contributed nonfinancial assets, volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation.

Functional Expense Allocation

The costs of providing the program and supporting services have been summarized on a functional basis in the Statements of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated based on employees' time incurred and management's estimate of the usage of resources. The expenses that are allocated include salaries and benefits which are allocated based on time incurred and consultants, occupancy and storage, meetings, office supplies, bank charges, telephone, dues, subscriptions, education, insurance, travel, depreciation, and other which are allocated based on estimate of usage of resources.

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation is organized as a California not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, it is not obligated to pay federal or state corporate income taxes unless its unrelated business income as defined by the Internal Revenue Service Code, exceeds \$1,000. The Foundation did not generate unrelated business income and is, therefore, not subject to federal or state corporate income taxes for the years ended June 30, 2023 and 2022. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified by the Internal Revenue Service as other than a private foundation under Section 509(a)(2).

The Foundation has accounted for uncertainty in income taxes as required by the Accounting for Uncertainty in Income Taxes topic of the FASB Accounting Standards Codification. The Foundation uses comprehensive model for recognizing, and measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The effect of applying this model and the resulting identification of uncertain tax positions, if any, were not considered significant for financial reporting purposes.

Use of Estimates

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

Leases

The Foundation determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Foundation does not report ROU assets and liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Recently Adopted Accounting Pronouncements

The Foundation adopted ASU 2016-02 - Leases (Topic 842), which requires lessees to recognize assets and liabilities for leases on the statement of financial position and disclose key information about leasing arrangements, as of July 1, 2022. The Foundation elected not to restate the comparative period. It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Foundation recognized right-of-use assets of \$99,984 and lease liabilities totaling \$99,798 in its statement of financial position as of June 30, 2023, as disclosed in Note 12. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended June 30, 2023.

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASU 2020-07 - Presentation & Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958) Under the new guidance, not-for-profit entities that receive contributed nonfinancial assets will be required to provide enhanced presentation and disclosures regarding the type and valuation of the receipts of nonfinancial assets. The requirements in the ASU require presentation of the receipt of nonfinancial assets as a separate line item in the statement of activities. The ASU also requires additional disclosures regarding qualitative information about the monetization or utilization of the nonfinancial assets, any donor-imposed restrictions to the use of the nonfinancial assets, and a description of the valuation techniques and inputs used to determine the fair value on the date the nonfinancial assets were received. The amendments in this ASU should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021. The standard did not have a material impact on the financial statements. The Foundation has updated disclosures as necessary. (See Note 13 In-Kind Contributions)

Subsequent Events

Subsequent events have been evaluated through January 12, 2024, which is the date the financial statements were available to be issued.

NOTE 2: LIQUIDITY AND AVAILABILITY

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. The Foundation also receives gifts to establish and/or grow endowments that will exist in perpetuity, the income generated from such endowments is used to support programs and Foundation operations. In addition, the Foundation receives support without donor restrictions; such support has historically represented approximately 77% of operating needs and is generated through direct mail and an annual gala event. *Authors on the Move*. The remaining operations budget is funded by management fees from endowments, fee for service projects such as the Walk4Literacy and the Community Literacy Map as well as investment income from the Foundation Operations Endowment. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation considers investment income without donor restrictions, appropriated earnings from board-designated (quasi) endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and community grants.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability.
- Maintain adequate liquid assets, and
- Maintain sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation has established grant cycles for the Walk4Literacy and the Children's Literacy Endowment. The Foundation reviews its liquidity monthly in order to maintain financial assets available to meet general expenditures. The Foundation maintains an operating reserve of 6 months of annual expenses for administrative, general, and fundraising expenses. Additionally, the Foundation holds board designated assets that in the case of an emergency, could be withdrawn from endowments and used for operations and grant commitments.

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2: LIQUIDITY AND AVAILABILITY (CONTINUED)

The following table is updated monthly for the Board of Directors to review.

	June 30, 2023	June 30, 2022
Cash and cash equivalents	\$ 460,620	\$ 356,185
Investments	1,410,753	1,352,464
Contributions receivable - current	287,500	52,683
Total	\$ 2,158,873	\$ 1,761,332
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose or time restrictions	(173,047)	(170,235)
Restricted by donors into perpetuity	(817,926)	(724,093)
Board designated reserve and endowment	(738,911)	(578,911)
Total financial assets available to management for general expenditure within one year	\$ 428,989	\$ 288,093

As of June 30, 2023 and 2022, the Foundation had 8 months and 5 months respectively, of available cash to cover operations in the event of a crisis. In addition, as of June 30, 2023 and 2022, the Foundation held \$513,911 and \$353,911, respectively, in board designated endowment reserve that could be withdrawn and redirected if necessary.

The Liquidity of the Foundation has been closely monitored and managed by the Foundation's management since the 2008 market collapse.

NOTE 3: CASH AND CASH EQUIVALENTS

The balance in cash and cash equivalents at June 30, 2023 and June 30, 2022 consisted of the following:

	June 30, 2023	June 30, 2022
Cash and cash equivalents	\$ 138,773	\$ 301,274
Cash and cash equivalents - Held in endowment investment accounts	321,847	54,911
Total cash and cash equivalents	\$ 460,620	\$ 356,185

The Foundation maintains bank accounts at several reputable financial institutions. As of June 30, 2023 the Foundation's bank balances totaled \$461,235 of which \$389,388 was insured by the Federal Deposit Insurance Corporation. At June 30, 2022 the Foundation's bank balances totaled \$315,988 all of which was fully insured by the Federal Deposit Insurance Corporation.

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4: INVESTMENTS

Investment securities are reported in the financial statements at fair market value and consisted of the following at June 30, 2023 and June 30, 2022:

	June 30, 2023	June 30, 2022
Current Investments:		
Exchange-traded funds	\$ 283,961	\$ 265,791
Bonds	<u>60,109</u>	<u>63,390</u>
Total current Investments	<u>\$ 344,070</u>	<u>\$ 329,181</u>
Non-current investments:		
Endowments:		
Exchange-traded funds	\$ 981,128	\$ 933,083
Bonds	<u>85,555</u>	<u>90,200</u>
Total endowments	<u>1,066,683</u>	<u>1,023,283</u>
Total Investments	<u>\$ 1,410,753</u>	<u>\$ 1,352,464</u>

The following schedule summarizes the investment activity reported in the statements of activities:

	June 30, 2023	June 30, 2022
Interest and Dividends	\$ 42,961	\$ 32,243
Realized and Unrealized Gains (Losses)	94,468	(256,566)
Investment Fees	<u>(11,797)</u>	<u>(15,680)</u>
Net Investment Income	<u>\$ 125,632</u>	<u>\$ (240,003)</u>

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5: FAIR VALUE MEASUREMENTS

The Foundation reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets that we can access at the measurement date.

- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

- Level 3 Unobservable inputs for the asset. In these situations, we develop inputs using the best information available in the circumstances.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset.

All of the Foundation's investment assets are classified within Level 1 because they comprise open-end mutual funds and fixed income securities with readily determinable fair values based on daily redemption values. The Foundation has no Level 2 or 3 investments.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value on a recurring basis as of June 30, 2023 and June 30, 2022.

Assets at Fair Value as of June 30, 2023	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 903,758	\$ -	\$ -	\$ 903,758
Fixed Income Securities(Corp/Gov)	<u>506,995</u>	<u>-</u>	<u>-</u>	<u>506,995</u>
Total assets at fair value	<u>\$ 1,410,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,410,753</u>

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 5: FAIR VALUE MEASUREMENTS (CONTINUED)

Assets at Fair Value as of June 30, 2022	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Securities	\$ 857,104	\$ -	\$ -	\$ 857,104
Fixed Income Securities(Corp/Gov)	495,360	-	-	495,360
Total assets at fair value	<u>\$ 1,352,464</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,352,464</u>

NOTE 6: CONTRIBUTIONS RECEIVABLE

Contributions receivable are expected to be realized in the following periods:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
In one year or less	\$ 287,500	\$ 52,683
Between one and four years	560,000	2,300
Less discount to net present value	<u>(31,443)</u>	<u>(557)</u>
Contributions receivable, net	<u>\$ 816,057</u>	<u>\$ 54,426</u>

Contributions receivable are reported as follows in the Statement of Financial Position:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Contributions receivable	\$ 287,500	\$ 52,683
Contributions receivable, net of discount	<u>528,557</u>	<u>1,743</u>
Contributions receivable, net	<u>\$ 816,057</u>	<u>\$ 54,426</u>

Unconditional promises to give with expected payments extending beyond one year have been evaluated using a discount rate of 1.42%. The discount amount calculated was \$31,443 and \$557 as of June 30, 2023 and June 30, 2022, respectively. Management has determined that the unconditional promises to give are fully collectible; therefore, no allowance for uncollectible accounts are recorded at June 30, 2023 and June 30, 2022.

NOTE 7: CONCENTRATION OF RISK

During the year ended June 30, 2023, approximately 85% of revenues was provided by one supporter. During the year ended June 30, 2022, approximately 24% of revenues was provided by two supporters.

As of June 30, 2023, approximately 97% of accounts receivable was provided by one supporters. As of June 30, 2022, approximately 91% of accounts receivable was provided by three supporters.

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods.

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Endowments:		
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
SLF Operations	\$ 25,506	\$ 9,471
Children Literacy	<u>792,420</u>	<u>714,622</u>
Endowments Total	<u>\$ 817,926</u>	<u>\$ 724,093</u>
Subject to expenditure for a specified purpose:		
Programs:		
Books in the Home	\$ 38,860	\$ 30,495
Colonial Heights	-	85,025
Literacy Grants	11,692	11,692
Literacy Map	20,480	15,541
Literacy Summit	20,000	-
Promise Zone	988	22,183
Summer Reading 2	12,339	50
Tech Teens	65,025	-
Walk4Literacy	<u>3,663</u>	<u>5,249</u>
Programs Total	<u>173,047</u>	<u>170,235</u>
Total net assets with donor restrictions	<u>\$ 990,973</u>	<u>\$ 894,328</u>

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8: NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from restrictions by incurring expenses satisfying the purpose restrictions as follows:

Subject to expenditure for a specified purpose:

Programs:

Books in the Home	\$ 111,720	\$ 115,654
Literacy Map	7,520	31,269
Promise Zone	21,324	23,798
Summer Reading	-	76,368
Summer Reading 2	27,146	-
Tech Teens	20,000	-
Walk4Literacy	<u>21,607</u>	<u>50</u>
Programs Total	<u>209,317</u>	<u>247,139</u>
Total net assets released from donor restrictions	<u>\$ 209,317</u>	<u>\$ 247,139</u>

NOTE 9: NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Without donor restrictions:		
Endowments:		
SLF Operations	\$ 325,498	\$ 165,498
Children's Literacy	<u>188,413</u>	<u>188,413</u>
Endowments total	<u>513,911</u>	<u>353,911</u>
Board designated:		
Reserves	225,000	225,000
Undesignated	<u>942,635</u>	<u>265,712</u>
Total net assets without donor restrictions	<u>\$ 1,681,546</u>	<u>\$ 844,623</u>

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 10: ENDOWMENTS

The Foundation manages two endowments, the Children's Literacy Endowment and the Operations Endowment.

The Children's Literacy Endowment directly benefits community organizations that deliver summer reading programming and submit a successful grant application. The Operations Endowment directly benefits the Foundation's operations and seeks to create operational stability. These endowments include certain net assets without donor restrictions that have been designated for endowments by the Board of Directors. The Board of Directors has implemented policies and procedures that guide it to direct all unrestricted bequest gifts to endowments when possible. These gifts will make contributions to the Sacramento community in perpetuity - a fitting approach to an individual's final gift. The Board is aware that board designated endowment funds can be re-directed at any time the Board deems necessary.

The Board of Directors of the Foundation has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation to the fair value of the original gift as of the first distribution of said endowment, unless there are explicit donor stipulations to the contrary. At June 30, 2023 and June 30, 2022, there were no such donor stipulations.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2023 and 2022 none of the endowments held by the Foundation were underwater.

Investment and Spending Policies

The Foundation adopted investment and spending policies for their endowments that provide a predictable stream of funding for the community and the Foundation while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments. The target minimum rate of return is the Consumer Price Index plus 5 percent on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through an asset allocation that achieves both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Foundation uses an endowment spending-rate formula to determine the amount to spend from the endowment, including those endowments deemed to be underwater, each year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the average fair value of the endowment investments for the prior three years in April of each year to determine the distribution for the current year. In establishing this policy, the long-term expected return on the endowment was considered and the rate set with the objective of maintaining the purchasing power of the endowment over time and maintaining the level of support distributed annually to the Library.

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 10: ENDOWMENTS (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2023 was as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Board designated endowment funds	\$ 513,911	\$ -	\$ 513,911
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	759,938	759,938
Accumulated investment gains (losses)	-	57,988	57,988
Total	\$ 513,911	\$ 817,926	\$ 1,331,837
	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 353,911	\$ 724,093	\$ 1,078,004
Contributions	160,000	-	160,000
Investment income	-	14,845	14,845
Net appreciation (depreciation)	-	78,988	78,988
Endowment net assets, end of year	\$ 513,911	\$ 817,926	\$ 1,331,837

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 10: ENDOWMENTS (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2022 was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Board designated endowment funds	\$ 223,911	\$ -	\$ 223,911
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	758,558	758,558
Transfer into endowment	130,000	-	130,000
Accumulated investment gains (loss)	<u>-</u>	<u>(34,465)</u>	<u>(34,465)</u>
Total	<u>\$ 353,911</u>	<u>\$ 724,093</u>	<u>\$ 1,078,004</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 223,911	\$ 943,665	\$ 1,167,576
Contributions	-	25,150	25,150
Investment income (loss)	-	(197,597)	(197,597)
Net appreciation (depreciation)	-	(47,125)	(47,125)
Transfers per Settlement Agreement	<u>130,000</u>	<u>-</u>	<u>130,000</u>
Endowment net assets, end of year	<u>\$ 353,911</u>	<u>\$ 724,093</u>	<u>\$ 1,078,004</u>

NOTE 11: EMPLOYEE BENEFIT PLAN

The Foundation has a Saving Incentive Match Plan for Employees of Small Employers (the Plan). The Plan covers all employees. Under the terms of the Plan, the Foundation matches employee contributions dollar for dollar up to a maximum of 3% of compensation. Contributions to the Plan for the years ended June 30, 2023 and June 30, 2022 totaled \$3,643 and \$4,902, respectively.

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 12: OPERATING LEASE

The Foundation leases office space under a long-term non-cancelable operating lease agreement expiring November of 2027. The Foundation includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The operating lease provides for increases in future minimum annual rental payments.

The foundation evaluated its current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent the Foundation's right to use underlying assets for the lease term, and the lease liabilities represent the Foundation's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, which arise from one operating lease, were calculated based on the present value of future lease payments over the lease terms. The Foundation has made an accounting policy election to use a risk-free rate of 3% as of June 30, 2023, in lieu of its incremental borrowing rate to discount future lease payments. The Foundation has applied the risk-free rate option to all classes of assets.

The Foundation has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Total right-of-use assets and lease liabilities at June 30, 2023, are as follows:

<u>Lease Assets - Classification in Statement of Financial Position</u>	<u>2023</u>
Operating right-of-use assets	\$ <u>99,798</u>
Total leased right-of-use assets	\$ <u><u>99,798</u></u>
<u>Lease Liabilities - Classification in Statement of Financial Position</u>	<u>2023</u>
Current portion of lease obligation	\$ 24,287
Long-term lease obligation	<u>75,511</u>
Total lease liabilities	\$ <u><u>99,798</u></u>

Total lease costs for the years ended June 30, 2023 were as follows:

	<u>2023</u>
Operating lease cost	\$ <u>17,370</u>
Total lease cost	\$ <u><u>17,370</u></u>

SACRAMENTO LITERACY FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 12: OPERATING LEASE (CONTINUED)

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of

	June 30,	Total
	2024	\$ 24,287
	2025	22,911
	2026	27,869
	2027	26,536
	2027	8,933
Total lease payments		110,536
Less present value discount		(10,738)
Present value of lease liabilities		\$ 99,798

NOTE 13: IN-KIND CONTRIBUTIONS

For the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized in the statements of activities included the following:

	2023	2022
Donated auction items	\$ 15,000	\$ 14,815
Total	\$ 15,000	\$ 14,815

Contributed auction items are valued using estimated U.S. wholesale prices (principal market) of identical or similar products using pricing data under a "like-kind" methodology considering the goods' condition and utility for use at the time of the contribution. Contributed auction items are used in fundraising.

All gifts-in-kind received during the years ended June 30, 2023 and 2022 were unrestricted, unless noted otherwise.

NOTE 14: SETTLEMENT AGREEMENT TRANSFERS

On March 31, 2020, the Sacramento Public Library Authority (the 'Authority') filed suit against the Foundation, demanding that the Foundation change its name and relinquish its assets. On September 29, 2020, litigation was settled, subject to negotiation of a formal written settlement agreement. Donations received by the Foundation between September 29, 2020, and the effective date of the final settlement were split 50/50 between the Foundation and the Authority. On March 2, 2021, \$109,474 was given to the Library under this agreement. On July 29, 2021, another \$47,125 was given to the Library under this agreement. On March 1, 2023 and March 30, 2023, \$2,298.75 and \$1,230.81, respectively was given to the Library under this agreement. In all cases, bequests and donations were allocated in accordance with any expressed donor intent.