

***THE LITERACY LAB***

***YEARS ENDED  
JULY 31, 2018 AND 2017***

# **THE LITERACY LAB**

YEARS ENDED JULY 31, 2018 AND 2017

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## Independent Auditors' Report

Board of Directors  
The Literacy Lab  
Washington, D.C.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Literacy Lab (the Organization) (a nonprofit organization), which comprise the statements of financial position as of July 31, 2018 and 2017 and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Literacy Lab as of July 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements of The Literacy Lab. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedule of functional expenses and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of functional expenses and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018, on our consideration of The Literacy Lab's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Literacy Lab's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Literacy Lab's internal control over financial reporting and compliance.

*Brown Schultz Steidan & Fritz*

Camp Hill, Pennsylvania  
December 18, 2018

**THE LITERACY LAB**

STATEMENTS OF FINANCIAL POSITION

JULY 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 2,830,233	\$ 2,180,767
Accounts receivable	322,316	171,032
Grants receivable	812,080	605,613
Contributions receivable	1,142,670	181,666
Prepaid expenses	<u>137,663</u>	<u>42,904</u>
Total current assets	5,244,962	3,181,982
Fixed assets, net	8,356	20,534
Other assets, deposits	<u>10,640</u>	<u>8,718</u>
Total assets	<u>\$ 5,263,958</u>	<u>\$ 3,211,234</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 158,108	\$ 94,597
Accrued payroll and payroll liabilities	75,987	110,177
Deferred revenue	467,497	
Deferred rent	<u>287</u>	
Total liabilities, all current	<u>701,879</u>	<u>204,774</u>
Net assets:		
Unrestricted	2,623,409	2,437,075
Temporarily restricted	<u>1,938,670</u>	<u>569,385</u>
Total net assets	<u>4,562,079</u>	<u>3,006,460</u>
Total liabilities and net assets	<u>\$ 5,263,958</u>	<u>\$ 3,211,234</u>

See notes to financial statements.

## **THE LITERACY LAB**

### STATEMENTS OF ACTIVITIES

YEARS ENDED JULY 31, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenues and other support:						
Government grants	\$ 4,308,674		\$ 4,308,674	\$ 3,956,335		\$ 3,956,335
Contributions and other grants	569,601	\$ 2,455,865	3,025,466	631,694	\$ 1,152,493	1,784,187
Program service fees, tutoring	2,764,198		2,764,198	2,686,733		2,686,733
Donated services	579		579	12,250		12,250
Interest and other income	9,762		9,762	5,364		5,364
Net assets released from restrictions	1,086,580	(1,086,580)	-	774,283	(774,283)	-
<b>Total revenues and other support</b>	<b>8,739,394</b>	<b>1,369,285</b>	<b>10,108,679</b>	<b>8,066,659</b>	<b>378,210</b>	<b>8,444,869</b>
Expenses:						
Program services	8,039,392		8,039,392	6,744,385		6,744,385
Management and general	271,244		271,244	183,142		183,142
Fundraising	242,424		242,424	176,600		176,600
<b>Total expenses</b>	<b>8,553,060</b>		<b>8,553,060</b>	<b>7,104,127</b>		<b>7,104,127</b>
Changes in net assets	186,334	1,369,285	1,555,619	962,532	378,210	1,340,742
Net assets:						
Beginning of year	2,437,075	569,385	3,006,460	1,474,543	191,175	1,665,718
End of year	<b>\$ 2,623,409</b>	<b>\$ 1,938,670</b>	<b>\$ 4,562,079</b>	<b>\$ 2,437,075</b>	<b>\$ 569,385</b>	<b>\$ 3,006,460</b>

See notes to financial statements.

**THE LITERACY LAB**

STATEMENTS OF CASH FLOWS

YEARS ENDED JULY 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	<u>\$ 1,555,619</u>	<u>\$ 1,340,742</u>
Adjustments:		
Depreciation	12,178	12,234
Increase in:		
Accounts receivable	(151,284)	(92,141)
Grants receivable	(206,467)	(115,749)
Contributions receivable	(961,004)	(104,666)
Prepaid expenses	(94,759)	(29,288)
Deposits	(1,922)	(74)
Increase (decrease) in:		
Accounts payable and accrued expenses	63,511	(6,938)
Accrued payroll and payroll liabilities	(34,190)	5,398
Deferred revenue	467,497	(45,986)
Deferred rent	<u>287</u>	<u>(3,618)</u>
Total adjustments	<u>(906,153)</u>	<u>(380,828)</u>
Net cash provided by operating activities and increase in cash	649,466	959,914
Cash:		
Beginning of year	<u>2,180,767</u>	<u>1,220,853</u>
End of year	<u><u>\$ 2,830,233</u></u>	<u><u>\$ 2,180,767</u></u>

See notes to financial statements.

## **THE LITERACY LAB**

### NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2018 AND 2017

#### **1. Nature of activities:**

The Literacy Lab (the Organization) was incorporated in 2010 under the laws of the State of Virginia for the purpose of providing high-quality reading instruction to low-income students in order to improve their literacy skills, leading to increased academic and life success.

The Organization places full-time tutors in high-needs schools to provide one-on-one literacy intervention to children from age three to grade three. In 2018, the Organization served over 4,900 children in Washington, DC; Alexandria, VA; Baltimore, MD; Kansas City, MO and Richmond, VA. In 2016, the Organization also launched the Leading Men Fellowship, a special initiative to increase diversity and quality in the early childhood workforce. The goals of the Organization are to improve individual students' reading levels by providing direct instruction in reading, to make schools and teachers more effective providing targeted reading interventions which allow students to access the rest of the curriculum and to strengthen communities by preparing children for academic and career success through increased literacy skills.

#### **2. Summary of significant accounting policies:**

##### *Basis of accounting:*

The financial statements of the Organization have been prepared on the accrual basis of accounting with revenue recognized when earned and expenses recognized when incurred.

##### *Financial statement presentation:*

Financial statement presentation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization currently has no permanently restricted net assets.



## **THE LITERACY LAB**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

#### **2. Summary of significant accounting policies (continued):**

##### *Revenue recognition:*

Contributions are recognized as revenue when they are received or unconditionally pledged.

All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions and promises to give with donor-imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met. Contributions and promises to give with donor-imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value. Contributions to be received after one year are discounted at an appropriate discount rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contribution.

Grant revenues from foundation grants are recognized as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expiration of temporary restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restrictions between the applicable classes of net assets.

Grant revenues are received primarily from federal agencies and the District of Columbia government and recorded as costs are incurred. These grants are subject to financial and compliance audits by the grantor agencies. No provision for possible adjustments for disallowed costs has been made in the accompanying financial statements, as management believes any such adjustment would not have a material effect on the financial statements.

Costs incurred in excess of cash received are shown as grants receivable.

Program service fee revenues for tutoring services are considered to be exchange transactions and accordingly, are recognized as the services are completed. These revenues are recognized in the year the services are provided.

## **THE LITERACY LAB**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

#### **2. Summary of significant accounting policies (continued):**

##### *Accounts and grants receivable:*

The Organization's accounts receivable consist of unsecured amounts due from program participants and funding sources whose ability to pay is subject to changes in general economic conditions.

The Organization manages its credit risk pertaining to accounts receivable by performing ongoing credit evaluations of its program participants and funding sources and generally does not require collateral. Accounts and grants receivable as presented are current and considered fully collectible by management.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. There was no provision for bad debt expense as of July 31, 2018 and 2017, as management expects that all balances currently due are collectible.

##### *Contributions receivable:*

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Organization. The Organization uses the allowance method to determine uncollectible promises to give. Contributions receivable are all due to be received within one year.

Concentrations of credit risk with respect to contributions receivable are limited due to the large number of contributions comprising the Organization's contributor base and their dispersion across different industries and donor backgrounds.

##### *Tax status:*

The Organization has been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and files a federal form 990 annually. Under IRC Section 512(a)(7), certain transportation benefits are subject to unrelated business income tax. As of July 31, 2018, the Organization estimates that \$1,405 of income tax is due related to the filing of the Federal 990-T Tax Return.

## **THE LITERACY LAB**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

#### **2. Summary of significant accounting policies (continued):**

##### *Donated services and materials:*

Donated services and materials are recognized as contributions if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Contributed services and promises to give services that do not meet the criteria noted above are not recognized. In-kind contributions for space, supplies and professional services are recorded in the statements of activities at fair value and recognized as revenue and expense in the period they are received, except for donated equipment, which is recorded as revenue in the period received and the asset is depreciated over its estimated useful life.

A number of volunteers donated their time to the Organization by serving on advisory and planning committees. No value has been assigned for those services. The time contributed by the members of the Organization's Board of Directors is uncompensated and is not reported in the financial statements.

##### *Advertising:*

Advertising and marketing costs are expensed when incurred. Marketing activities were conducted for the purpose of promoting the activities of the Organization. Advertising and marketing expenses in the amount of \$1,508 and \$1,302 were incurred during the years ended July 31, 2018 and 2017, respectively.

##### *Functional expense allocation policies and procedures:*

The Organization's expenses are summarized on a functional basis in the statement of activities. Accordingly, certain costs are allocated among the program and supporting services benefited.

##### *Use of estimates:*

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

## **THE LITERACY LAB**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

#### **2. Summary of significant accounting policies (continued):**

##### *Subsequent events:*

Management evaluated subsequent events through December 18, 2018, the date the combined financial statements were available to be issued.

##### *Recently issued accounting standards:*

###### Revenue:

Financial Accounting Standards Board Accounting Standards Update (FASB ASU) 2014-09, *Revenue from Contracts and Customers* (Topic 606), with effective dates amended by FASB ASU 2015-14, is effective for the Organization's 2019 year end and identifies specific steps to be applied to properly recognize revenue from customer contracts. Under the standard, revenue recognition is determined using a five-step model which identifies customer contracts, identifies performance obligations in each contract, determines transaction price, allocates transaction price to performance obligations and recognizes revenue when or as the performance obligations are satisfied. The standard permits the use of either the retrospective or cumulative effect transition method. The Organization is evaluating the effect that ASU 2014-09 will have on its financial statements. The Organization has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

###### Leases:

FASB ASU 2016-02, *Leases*, is effective for the Organization's 2020 year end and requires that all leases with terms of more than 12 months be recognized as assets and liabilities on the statement of financial position. Recognition of these lease assets and lease liabilities represents a change from previous generally accepted accounting principles (GAAP), which did not require lease assets and lease liabilities to be recognized for operating leases. Qualitative disclosures along with specific quantitative disclosures will be required to provide enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities.

The Organization will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that the Organization may elect to apply. At adoption, the Organization will recognize a right-of-use asset and a lease liability initially measured at the present value of its operating lease payments. The Organization is currently evaluating the impacts of adopting this guidance on its financial position, results of operations and cash flows.

## **THE LITERACY LAB**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

#### **2. Summary of significant accounting policies (continued):**

*Recently issued accounting standards (continued):*

##### Not-for-profit entities:

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the ASU are as follows: (1) the ASU replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets, (2) the ASU expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions, as well as any underwater endowment funds, (3) the ASU requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses and (4) the ASU requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk. ASU 2016-14 is to be applied retrospectively and is effective for years beginning after December 15, 2017. The Organization will be evaluating the impact this standard will have on its financial statements and related disclosures.

#### **3. Fixed assets:**

Fixed assets are recorded at cost. Contributed assets are recorded at fair value. If an expenditure in excess of \$5,000 results in an asset having an estimated useful life, which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful life of the asset. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. All fixed assets have an estimated useful life of three years.

**THE LITERACY LAB**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

**3. Fixed assets (continued):**

Classification of fixed assets and their estimated useful lives as of July 31, 2018 and 2017 are as summarized below:

	Estimated useful life (years)	<u>2018</u>	<u>2017</u>
Website and database	3	\$ 35,655	\$ 35,655
Computers	3	<u>5,705</u>	<u>5,705</u>
Total cost		41,360	41,360
Accumulated depreciation		<u>33,004</u>	<u>20,826</u>
Net book value		<u>\$ 8,356</u>	<u>\$ 20,534</u>

**4. Temporarily restricted net assets:**

Temporarily restricted net assets are comprised of contributions received from various grants and donors which are available to support future projects or operations. Temporarily restricted net assets as of July 31, 2018 and 2017 were available for the following:

	<u>2018</u>	<u>2017</u>
Program services, purpose restricted:		
Reading Corps	\$ 1,227,785	\$ 352,500
Leading Men	600,000	
Technology project	50,000	
Ready to Read	<u>1,000</u>	<u>2,000</u>
Total purpose restricted	1,878,785	354,500
Time restricted	<u>59,885</u>	<u>214,885</u>
Total temporarily restricted net assets	<u>\$ 1,938,670</u>	<u>\$ 569,385</u>

## THE LITERACY LAB

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

#### 5. Released from restrictions:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified or implied by donors. During the years ended July 31, 2018 and 2017, the Organization expended funds from temporarily restricted net assets as follows:

	<u>2018</u>	<u>2017</u>
Program services, purpose restriction incurred:		
Reading Corps	\$ 844,000	\$ 663,209
Leading Men	50,000	
Ready to Read	2,000	5,225
Practice Development	580	
Summer intern		<u>2,000</u>
Total released for purpose restrictions	896,580	670,434
Time restriction expired	<u>190,000</u>	<u>103,849</u>
Total released from restrictions	<u>\$ 1,086,580</u>	<u>\$ 774,283</u>

#### 6. Commitments:

##### *Operating Sublease – 1003 K Street, NW (Washington, DC):*

The Organization entered into a lease agreement with New Leaders, Inc. on November 10, 2015 for the rent of office space located at 1003 K Street NW, Washington, DC. The lease term commenced on December 1, 2015 and is scheduled to expire on May 31, 2019. Monthly base rent payments of \$5,463 began on December 1, 2015, which then increased to \$5,681 per month on December 1, 2016. On October 19, 2016, both parties agreed to an amendment to the sublease for additional office space. Pursuant to the terms of the lease amendment, total monthly base rent payments of \$11,286 began on June 1, 2017. A second amendment was signed on May 21, 2018 which increased the monthly base rent payments to \$11,756, effective June 1, 2018. As a requirement of this lease, a security deposit in the amount of \$5,463 was made. Rental expense related to this lease for the years ended July 31, 2018 and 2017 was \$136,376 and \$74,677, respectively.

## **THE LITERACY LAB**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

#### **6. Commitments (continued):**

##### *Operating Sublease – 4049 Pennsylvania Avenue (Kansas City, MO):*

The Organization entered into a sublease agreement with Turn the Page for the rental of office space at 4049 Pennsylvania Avenue, Kansas City, MO. This lease is effective for a period of thirty-six (36) months beginning on January 1, 2016 and expiring on December 31, 2018. On March 21, 2017, both parties agreed to a revised sublease for additional office space. Pursuant to the terms of the revised sublease, monthly base rent shall be \$1,767 from June 1, 2017 through December 31, 2017. The Organization was notified by Turn the Page that, effective January 1, 2018, the new monthly rent amount decreased to \$1,570. As a requirement of this lease, a security deposit in the amount of \$800 was made. Rental expense (including utilities) related to this lease for the years ended July 31, 2018 and 2017 was \$20,063 and \$13,183, respectively.

##### *Operating Lease – 1500 Union Avenue (Baltimore, MD):*

The Organization entered into a lease agreement with Union Avenue Master Sub-Tenant, LLC for the rental of office space at 1500 Union Avenue, Baltimore, MD. This lease is effective for a period of thirty-six (36) months beginning on December 1, 2017 and expiring on November 30, 2020. Pursuant to the terms of the lease, monthly base rent shall be \$1,185 from December 1, 2017 through November 30, 2018, and increases to \$1,221 for December 1, 2018 through November 30, 2019, and \$1,257 for December 1, 2019 through November 30, 2020. In addition to the base rent, there is also a monthly fee to cover operating expenses. As a requirement of this lease, a security deposit in the amount of \$2,627 was made. Rental expense (including operating expenses) related to this lease for the years ended July 31, 2018 and 2017 was \$21,589 and \$0, respectively.

##### *Operating Lease – One Federal Street, Building 101 (Springfield, MA):*

The Organization entered into a lease agreement with Springfield Technical Community College Assistance Corporation for the rental of office space at One Federal Street, Springfield, MA. This lease is effective for a period of thirteen (13) months beginning on June 1, 2018 and expiring on June 30, 2019. Pursuant to the terms of the lease, monthly base rent shall be \$400 per month. As a requirement of this lease, a security deposit in the amount of \$400 was made. Rental expense related to this lease for the years ended July 31, 2018 and 2017 was \$800 and \$0, respectively.



**THE LITERACY LAB**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

**6. Commitments (continued):**

As of July 31, 2018, future minimum rental obligations required under these operating subleases are as follows:

Year ending <u>July 31,</u>	
2019	\$ 162,210
2020	32,733
2021	<u>10,960</u>
Totals	<u>\$ 205,903</u>

*License Agreement - 1500 Union Avenue, Baltimore, MD:*

The Organization entered into a license agreement with New Leaders, Inc. on June 24, 2016 for the rental of certain office space located at 1500 Union Avenue, Baltimore, MD. This license agreement calls for twelve (12) monthly payments of \$655, commencing on July 15, 2016. As a requirement of this license agreement, a security deposit in the amount of \$655 was made. On June 23, 2017, both parties agreed to an amendment to the license agreement, which extended the term to November 29, 2017. The license agreement was not renewed and the Organization entered into a lease agreement at the same location, as described above. Rental expense related to this license agreement for the years ended July 31, 2018 and 2017 was \$2,620 and \$7,860, respectively.

## **THE LITERACY LAB**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

#### **6. Commitments (continued):**

##### *Membership Agreements - 2920 W. Broad St., Richmond, VA:*

The Organization entered into a membership agreement with Gather, LLC on May 23, 2017 for the rental of certain office space located at 2920 W. Broad St., Richmond, VA. This membership agreement calls for twelve (12) monthly payments of \$800, commencing on July 19, 2017. On July 31, 2018, a new membership agreement was executed for an additional twelve (12) month period with monthly payments of \$824, commencing on August 1, 2018. As a requirement of this new membership agreement, a security deposit in the amount of \$824 was made. Rental expense (including operating expenses) related to this membership agreement for the years ended July 31, 2018 and 2017 was \$10,981 and \$8,592, respectively.

On July 17, 2017, a separate membership agreement was executed with Gather, LLC for use of a desk located at 2920 W. Broad St., Richmond, VA. This membership agreement calls for three (3) monthly payments of \$350, commencing on August 25, 2017, with month to month payments thereafter. This membership agreement ended on March 4, 2018. Rental expense related to this membership agreement for the years ended July 31, 2018 and 2017 was \$2,224 and \$0, respectively.

On January 16, 2018, a separate membership agreement was executed with Gather, LLC for use of an office located at 2920 W. Broad St., Richmond, VA. This membership agreement calls for month to month payments of \$550, commencing on March 5, 2018. As a requirement of this new membership agreement, a security deposit in the amount of \$550 was made. Rental expense related to this membership agreement for the years ended July 31, 2018 and 2017 was \$2,661 and \$0, respectively.

On July 31, 2018, a separate membership agreement was executed for a twelve (12) month period with monthly payments of \$550, commencing on August 1, 2018. As a requirement of this new membership agreement, a security deposit in the amount of \$550 is required to be made.

As of July 31, 2018, future minimum rental obligations required under these license and membership agreements total \$16,968.

## **THE LITERACY LAB**

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

#### **6. Commitments (continued):**

##### *Parking Agreement:*

On December 1, 2015, the Organization entered into a parking agreement with LAZ Parking for the rental of five (5) parking spaces. The agreement is for one month, automatically renewable upon timely receipt of the prevailing fee. As of July 31, 2018, the parking agreement calls for monthly payments of \$1,229. Rental expense related to this parking agreement for the years ended July 31, 2018 and 2017 was \$14,534 and \$11,390, respectively.

#### **7. Line of credit:**

The Organization has a \$300,000 line of credit note with PNC Bank. Borrowings under the line bear interest at the WSJ Prime Rate plus 0.68% (5.68% at July 31, 2018). The line of credit is secured by the assets of the Organization. Accrued interest will be due and payable on the first day of each month. The outstanding principal balance and any unpaid interest are due at maturity (May 1, 2019). There have been no drawdowns on the line of credit, and the outstanding balance on the line of credit at July 31, 2018 and 2017 was zero. The agreement requires the Organization to comply with certain non-financial covenants.

#### **8. Concentrations:**

The Organization holds its cash in checking and money market accounts at one financial institution. At July 31, 2018 and 2017, the total cash balance reported by the bank exceeded the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 by approximately \$2,338,000 and \$1,905,000, respectively. The Organization has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk related to cash.

73% and 68% of total support was attributable to grants and contributions for the years ended July 31, 2018 and 2017, respectively. Concentrations with respect to grants and contributions are limited due to the large number of contributors comprising the Organization's contributor base and their dispersion across different industries and donor backgrounds.

#### **9. Related party transactions:**

Various board members and family members of board members of The Literacy Lab contributed to the Organization. These contributions totaled \$91,350 and \$94,750 during the years ended July 31, 2018 and 2017, respectively.

***THE LITERACY LAB***

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2018 AND 2017

**10. Retirement plan:**

Employees of the Organization are covered under an optional contributory retirement plan that covers substantially all employees. The Organization does not provide employer matching contributions. There is no unfunded past service liability. Therefore, no expense has been recorded for the years ended July 31, 2018 and 2017.

## THE LITERACY LAB

### SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JULY 31, 2018

	<u>Program services</u>			<u>Supporting services</u>		<u>Total</u>
	<u>Literacy Intervention</u>	<u>Leading Men</u>	<u>Total program services</u>	<u>Management and general</u>	<u>Fundraising</u>	
Payroll expenses:						
Staff salaries	\$ 1,334,565	\$ 390,040	\$ 1,724,605	\$ 184,035	\$ 121,529	\$ 2,030,169
Tutor living allowances	3,624,358		3,624,358			3,624,358
Fringe benefits	436,459	11,904	448,363	10,559	5,324	464,246
Payroll taxes	362,052	37,307	399,359	33,438	16,796	449,593
Payroll fees	26,418	2,730	29,148	2,435	1,254	32,837
Total payroll expenses	<u>5,783,852</u>	<u>441,981</u>	<u>6,225,833</u>	<u>230,467</u>	<u>144,903</u>	<u>6,601,203</u>
Direct program expenses:						
Coaches and program consultants	933,340	33,564	966,904			966,904
Program fees	161,819		161,819			161,819
Program supplies	55,339	4,022	59,361			59,361
Training costs	58,611	5,458	64,069			64,069
Program-related travel	19,152	23,868	43,020			43,020
Recruitment expenses	43,210	603	43,813			43,813
Tutor meetings and social events	18,474	459	18,933			18,933
Security background checks	17,889	498	18,387			18,387
Education awards		52,020	52,020			52,020
Other direct program expenses	2,677	24	2,701			2,701
Total direct program expenses	<u>1,310,511</u>	<u>120,516</u>	<u>1,431,027</u>			<u>1,431,027</u>
Other allocated expenses:						
Rent	169,148	17,482	186,630	17,494	7,709	211,833
Professional fees	16,615	965	17,580	976	78,490	97,046
Accounting and audit	18,114	1,857	19,971	1,877	827	22,675
Office expense	18,574	1,748	20,322	1,683	795	22,800
License and fees	24,038	1,413	25,451	1,201	859	27,511
Corporate insurance	29,586	3,033	32,619	3,066	1,351	37,036
Travel, food and beverage	21,376	5,112	26,488	1,472	4,868	32,828
Staff retreats and events	21,015	2,174	23,189	2,157	950	26,296
Telephone and internet	14,378	1,471	15,849	1,487	656	17,992
Professional development	7,211	1,718	8,929	605	341	9,875
Postage and delivery	1,014	109	1,123	85	44	1,252
Advertising and marketing	623	392	1,015	2	491	1,508
Depreciation	3,053	313	3,366	8,672	140	12,178
Total other allocated expenses	<u>344,745</u>	<u>37,787</u>	<u>382,532</u>	<u>40,777</u>	<u>97,521</u>	<u>520,830</u>
Total functional expenses	<u>\$ 7,439,108</u>	<u>\$ 600,284</u>	<u>\$ 8,039,392</u>	<u>\$ 271,244</u>	<u>\$ 242,424</u>	<u>\$ 8,553,060</u>

## THE LITERACY LAB

### SCHEDULE OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED JULY 31, 2017

	Program services	Supporting services		
	Literacy Intervention	Management and general	Fundraising	Total
Payroll expenses:				
Staff salaries	\$ 1,051,675	\$ 122,942	\$ 87,113	\$ 1,261,730
Tutor living allowances	3,505,562			3,505,562
Fringe benefits	309,501	5,217	1,569	316,287
Payroll taxes	366,085	9,148	6,906	382,139
Payroll fees	28,055	1,116	490	29,661
Total payroll expenses	5,260,878	138,423	96,078	5,495,379
Direct program expenses:				
Coaches and program consultants	818,262			818,262
Program fees	166,603			166,603
Program supplies	64,342			64,342
Training costs	52,224			52,224
Program-related travel	51,364			51,364
Recruitment expenses	19,873			19,873
Tutor meetings and social events	18,956			18,956
Security background checks	15,819			15,819
Other direct program expenses	3,360			3,360
Total direct program expenses	1,210,803			1,210,803
Other allocated expenses:				
Rent	106,686	7,363	1,653	115,702
Professional fees	18,681	1,555	75,349	95,585
Accounting and audit	34,886	15,153	652	50,691
Office expense	28,777	2,384	534	31,695
License and fees	19,682	1,523	940	22,145
Corporate insurance	18,606	1,548	347	20,501
Travel, food and beverage	28,551	1,949	527	31,027
Telephone and internet	9,559	795	179	10,533
Professional development	4,037	322	72	4,431
Postage and delivery	1,936	133	30	2,099
Advertising and marketing	986	83	233	1,302
Depreciation	317	11,911	6	12,234
Total other allocated expenses	272,704	44,719	80,522	397,945
Total functional expenses	\$ 6,744,385	\$ 183,142	\$ 176,600	\$ 7,104,127

**THE LITERACY LAB**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JULY 31, 2018

<u>Federal grantor/pass-through grantor program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantors number</u>	<u>Federal expenditures</u>
<u>Corporation for National and Community Services:</u>			
AmeriCorps National Direct Fixed Amount Program	94.006	N/A	\$ 1,356,706
Passed Through The Mayor's Office on Volunteerism (Serve DC):			
DC Reading Corps	94.006	N/A	260,000
Passed Through the Virginia Department of Social Services:			
VA Reading Corps	94.006	N/A	760,649
Passed Through the Missouri Community Service Foundation:			
MO Reading Corps	94.006	N/A	242,514
MO Reading Corps	94.006	N/A	168
Passed Through the Maryland Governor's Office on Service and Volunteerism:			
MD Reading Corps	94.006	N/A	169,361
Passed Through the Massachusetts Service Alliance:			
MA Reading Corps	94.006	N/A	<u>50,000</u>
Total Corporation for National and Community Services			<u>2,839,398</u>
<u>U.S. Department of Education:</u>			
Passed Through the District of Columbia:			
DC School Choice Incentive Program	84.370C	N/A	99,438
Passed Through the Maryland State Department of Education:			
Preschool Development Grant- Expansion	84.419B	N/A	<u>75,000</u>
Total U.S. Department of Education			<u>174,438</u>
Total Federal Awards			<u><u>\$ 3,013,836</u></u>

**THE LITERACY LAB**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JULY 31, 2018

**Notes to schedule of expenditures of federal awards:**

*Significant accounting policies and general information:*

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Organization and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, the amounts presented in this schedule may differ from the amounts presented in the preparation of the basic financial statements.

Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position or changes in net assets of the Organization.

None of the federal awards received have been passed through to subrecipients.

*Indirect costs:*

The Corporation elected not to use the ten percent de minimis indirect cost rate.





Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

Board of Directors  
The Literacy Lab  
Washington, D.C.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Literacy Lab, which comprise the statement of financial position as of July 31, 2018 and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 18, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Literacy Lab's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Literacy Lab's internal control. Accordingly, we do not express an opinion on the effectiveness of The Literacy Lab's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Literacy Lab's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Literacy Lab's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Literacy Lab's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Brown Schultz Steidman & Fritz*

Camp Hill, Pennsylvania  
December 18, 2018



Independent Auditors' Report on Compliance for the Major Program and on  
Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors  
The Literacy Lab  
Washington, D.C.

**Report on Compliance for the Major Federal Program**

We have audited The Literacy Lab's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on The Literacy Lab's major federal program for the year ended July 31, 2018. The Literacy Lab's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for The Literacy Lab's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Literacy Lab's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on The Literacy Lab's compliance.

## Opinion on the Major Federal Program

In our opinion, The Literacy Lab complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended July 31, 2018.

## Report on Internal Control Over Compliance

Management of The Literacy Lab is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Literacy Lab's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Literacy Lab's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Brown Schultz Steidman & Fritz*

Camp Hill, Pennsylvania  
December 18, 2018

**THE LITERACY LAB**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JULY 31, 2018

I. SUMMARY OF AUDITORS' RESULTS:

*Financial statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal awards*

Internal control over major programs:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?  yes  no

Identification of major programs:

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
94.006	AmeriCorps

(continued)

**THE LITERACY LAB**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JULY 31, 2018

I. SUMMARY OF AUDITORS' RESULTS (continued):

Dollar threshold used to distinguish between type  
A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

     yes        X   no

The Literacy Lab did not qualify as a low-risk auditee because the Organization was not required to undergo an audit in accordance with Uniform Guidance in the second prior audit period.

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None