THE LITERACY LAB

YEAR ENDED
JULY 31, 2017

THE LITERACY LAB

YEAR ENDED JULY 31, 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 statement of financial position as of July 31, 2017 and the related statements of activities and cash flows for the year 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 audit. 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.

210 GRANDVIEW AVENUE, CAMP HILL, PENNSYLVANIA 17011 T: 717.761.7171 F: 717.737.6655
201 GRANITE RUN DRIVE, SUITE 110, LANCASTER, PENNSYLVANIA 17601 T: 717.581.1040 F: 717.581.1042
800.294.7360 www.bssf.com

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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was 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 audit 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 14, 2017, 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 Sheridan & Fritz

Camp Hill, Pennsylvania
December 14, 2017

THE LITERACY LAB

STATEMENT OF FINANCIAL POSITION

JULY 31, 2017

ASSETS

Current assets:	
Cash	$ 2,180,767
Accounts receivable	171,032
Grants receivable	605,613
Contributions receivable	181,666
Prepaid expenses	42,904
Total current assets	3,181,982
Fixed assets, net	20,534
Other assets, deposits	8,718
Total assets	$ 3,211,234

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	$ 94,597
Accrued payroll and payroll liabilities	110,177
Total liabilities, all current	204,774
Net assets:	
Unrestricted	2,437,075
Temporarily restricted	569,385
Total net assets	3,006,460
Total liabilities and net assets	$ 3,211,234

See notes to financial statements.

THE LITERACY LAB

STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2017

	Unrestricted	Temporarily restricted	Total
Revenues and other support:			
Government grants	$ 3,956,335		$ 3,956,335
Contributions and other grants	631,694	$ 1,152,493	1,784,187
Program service fees, tutoring	2,686,733		2,686,733
Donated accounting services	12,250		12,250
Interest and other income	5,364		5,364
Net assets released from restrictions	774,283	(774,283)	-
Total revenues and other support	8,066,659	378,210	8,444,869
Expenses:			
Program services	6,744,385		6,744,385
Management and general	183,142		183,142
Fundraising	176,600		176,600
Total expenses	7,104,127		7,104,127
Changes in net assets	962,532	378,210	1,340,742
Net assets:			
Beginning of year	1,474,543	191,175	1,665,718
End of year	$ 2,437,075	$ 569,385	$ 3,006,460

See notes to financial statements.

THE LITERACY LAB

STATEMENT OF CASH FLOWS

YEAR ENDED JULY 31, 2017

Cash flows from operating activities:	
Change in net assets	$ 1,340,742
Adjustments:	
Depreciation	12,234
Increase in:	
Accounts receivable	(92,141)
Grants receivable	(115,749)
Contributions receivable	(104,666)
Prepaid expenses	(29,288)
Deposits	(74)
Increase (decrease) in:	
Accounts payable and accrued expenses	(6,938)
Accrued payroll and payroll liabilities	5,398
Deferred revenue	(45,986)
Deferred rent	(3,618)
Total adjustments	(380,828)
Net cash provided by operating activities and increase in cash	959,914
Cash:	
Beginning of year	1,220,853
End of year	$ 2,180,767

See notes to financial statements.

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 2017, the Organization served over 4,400 children in Washington, DC; Alexandria, VA; Baltimore, MD and Kansas City, MO. 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.

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.

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, 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. No income taxes are due as the Organization has no unrelated business income for the year ended July 31, 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 statement 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 $1,302 were incurred during the year ended July 31, 2017.

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.

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.

Classification of fixed assets and their estimated useful lives are as summarized below:

	Costs	Accumulated depreciation	Net book value
Website and database	$ 35,655	$ 15,414	$ 20,241
Computers	5,705	5,412	293
Totals	$ 41,360	$ 20,826	$ 20,534

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, 2017 were available for the following:

Program services, purpose restricted:	
Reading corps	$ 352,500
Ready to read	2,000
Total purpose restricted	354,500
Time restricted	214,885
Total temporarily restricted net assets	$ 569,385

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 year ended July 31, 2017, the Organization expended funds from temporarily restricted net assets as follows:

Program services, purpose restriction incurred:	
Reading Corps	$ 663,209
Ready to Read	5,225
Summer intern	2,000
Total released for purpose restrictions	670,434
Time restriction expired	103,849
Total released from restrictions	$ 774,283

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, 2018. 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. 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 year ended July 31, 2017, was $74,677.

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, and increases to $1,933 for January 1, 2018 through December 31, 2018. 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 year ended July 31, 2017, was $13,183.

As of July 31, 2017, future minimum rental obligations required under these operating subleases are as follows:

Year ending July 31,	
2018	$ 135,470
2019	9,767
Totals	$ 145,237

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. Rental expense related to this license agreement, for the year ended July 31, 2017, was $7,860. On June 23, 2017, both parties agreed to an amendment to the license agreement which extended the term to November 29, 2017.

6. Commitments (continued):

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

The Organization entered into a membership agreement with Gather, LLC on June 12, 2016, 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 $725, commencing on August 15, 2016. On May 23, 2017, a new membership agreement was executed for an additional twelve (12) month period with monthly payments of $800, commencing on July 19, 2017. As a requirement of this new membership agreement, a security deposit in the amount of $800 was made. Rental expense related to this membership agreement, for the year ended July 31, 2017, was $8,592.

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, subsequent to year-end, with month to month payments thereafter.

As of July 31, 2017, future minimum rental obligations required under these license and membership agreements total $13,350 for the year ended July 31, 2018

Parking Agreement:

On December 1, 2015, the Organization entered into a parking agreement with LAZ Parking for the rental of four (4) parking spaces. The agreement is for one month, automatically renewable upon timely receipt of the prevailing fee. As of July 31, 2017, the parking agreement calls for monthly payments of $949. Rental expense related to this parking agreement, for the year ended July 31, 2017, was $11,390.

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% (4.93% at July 31, 2017). 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, 2018). There have been no drawdowns on the line of credit, and the outstanding balance on the line of credit at July 31, 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, 2017, the total cash balance reported by the bank exceeded the Federal Deposit Insurance Corporation (FDIC) limit of $250,000 by approximately $1,905,000. 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.

68% of total support for the year ended July 31, 2017 was attributable to grants and contributions. 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 $94,750 during the year ended July 31, 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 for the year ended July 31, 2017 has been recorded.

11. Subsequent events:

On November 10, 2017, an operating lease agreement was executed with Union Avenue Master Sub-Tenant, LLC for the rent of office space located 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 agreement, total monthly rent payments of $2,627 will begin on December 1, 2017, and increase by 3% each year thereafter. As a requirement of this lease, a security deposit in the amount of $2,627 is required to be made.

The Organization has evaluated subsequent events through December 14, 2017, which is the date the financial statements were available to be issued.

THE LITERACY LAB

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JULY 31, 2017

	Program services	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, 2017

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantors number	Federal expenditures
Corporation for National and Community Services:			
AmeriCorps National Direct Fixed Amount Program	94.006	N/A	$ 1,329,846
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	549,199
Passed Through the Missouri Community Service Foundation:			
MO Reading Corps	94.006	N/A	134,730
Passed Through the Maryland Governor's Office on Service and Volunteerism:			
MD Reading Corps	94.006	N/A	169,361
MD Reading Corps	94.006	N/A	2,197
Total Corporation for National and Community Services			2,445,333
U.S. Department of Education:			
Passed Through the District of Columbia:			
DC School Choice Incentive Program	84.370C	N/A	116,693
Passed Through the Maryland State Department of Education:			
Preschool Development Grant- Expansion	84.419B	N/A	75,000
Total U.S. Department of Education			191,693
Total Federal Awards			$ 2,637,026

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 deminimis 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, 2017 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 14, 2017.

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.

210 GRANDVIEW AVENUE, CAMP HILL, PENNSYLVANIA 17011 T: 717.761.7171 F: 717.737.6655
201 GRANITE RUN DRIVE, SUITE 110, LANCASTER, PENNSYLVANIA 17601 T: 717.581.1040 F: 717.581.1042
800.294.7360 www.bssf.com

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 Sheridan & Fritz

Camp Hill, Pennsylvania
December 14, 2017

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, 2017. 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.

210 GRANDVIEW AVENUE, CAMP HILL, PENNSYLVANIA 17011 T: 717.761.7171 F: 717.737.6655
201 GRANITE RUN DRIVE, SUITE 110, LANCASTER, PENNSYLVANIA 17601 T: 717.581.1040 F: 717.581.1042
800.294.7360 www.bssf.com

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, 2017.

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 Sheridan & Fritz

Camp Hill, Pennsylvania
December 14, 2017

THE LITERACY LAB

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JULY 31, 2017

I. SUMMARY OF AUDITORS' RESULTS:

Financial statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	____	yes	X	no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____	yes	X	none reported
Noncompliance material to financial statements noted?	____	yes	X	no

Federal awards

Internal control over major programs:				
Material weakness(es) identified?	____	yes	X	no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____	yes	X	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	X	no

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
94.006	AmeriCorps

(continued)

THE LITERACY LAB

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JULY 31, 2017

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 each of the previous two audit periods.

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None