THE LITERACY LAB

YEARS ENDED
JULY 31, 2020 AND 2019

BROWN SCHULTZ SHERIDAN & FRITZ

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

THE LITERACY LAB

YEARS ENDED JULY 31, 2020 AND 2019

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Independent Auditor's 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, 2020 and 2019 and the related statements of activities, functional expenses 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.

Auditor's 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 of 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Organization as of July 31, 2020 and 2019 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 accompanying schedule of revenues and expenses – Department of Workforce Development – Contract No. 44500-O18-IHL0024-01 is presented for purposes of additional analysis as required by the State of Wisconsin Department of Workforce Development and is not a required part of the financial statements. 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 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 revenues and expenses – Department of Workforce Development – Contract No. 44500-O18-IHL0024-01 and scheduled 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 revenues and expenses – Department of Workforce Development – Contract No. 44500-O18-IHL0024-01 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 January 19, 2021, on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Brown Schultz Sheridan & Fritz

Camp Hill, Pennsylvania
January 19, 2021

THE LITERACY LAB

STATEMENTS OF FINANCIAL POSITION
JULY 31, 2020 AND 2019

ASSETS

	2020	2019
Current assets:		
Cash	$ 6,029,179	$ 3,732,841
Accounts receivable	516,487	62,065
Grants receivable	740,933	705,227
Contributions receivable	443,500	610,858
Prepaid expenses	100,972	187,192
Total current assets	**7,831,071**	**5,298,183**
Fixed assets, net	186,686	93,015
Other assets, deposits	24,727	29,890
Total assets	**$ 8,042,484**	**$ 5,421,088**

LIABILITIES AND NET ASSETS

	2020	2019
Current liabilities:		
Accounts payable and accrued expenses	$ 149,168	$ 153,014
Accrued payroll and payroll liabilities	209,145	130,857
Deferred revenue	52,000	130,129
Deferred rent	43,527	434
Refundable advance	204,699	
Total liabilities, all current	**658,539**	**414,434**
Net assets:		
Without donor restrictions	5,891,445	3,345,112
With donor restrictions	1,492,500	1,661,542
Total net assets	**7,383,945**	**5,006,654**
Total liabilities and net assets	**$ 8,042,484**	**$ 5,421,088**

See notes to financial statements.

THE LITERACY LAB

STATEMENTS OF ACTIVITIES
YEARS ENDED JULY 31, 2020 AND 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues and other support:						
Government grants	$ 7,197,471		$ 7,197,471	$ 4,774,337		$ 4,774,337
Contributions and other grants	686,279	$ 3,166,000	3,852,279	929,120	$ 2,245,609	3,174,729
Program service fees, tutoring	3,669,287		3,669,287	3,449,483		3,449,483
Donated services	950		950	950		950
Interest and other income	55,274		55,274	41,494		41,494
Net assets released from restrictions	3,335,042	(3,335,042)	-	2,522,737	(2,522,737)	-
Total revenues and other support	**14,944,303**	**(169,042)**	**14,775,261**	**11,718,121**	**(277,128)**	**11,440,993**
Expenses:						
Program services	11,306,227		11,306,227	10,422,846		10,422,846
Management and general	472,134		472,134	295,213		295,213
Fundraising	619,609		619,609	278,359		278,359
Total expenses	**12,397,970**		**12,397,970**	**10,996,418**		**10,996,418**
Changes in net assets	**2,546,333**	**(169,042)**	**2,377,291**	**721,703**	**(277,128)**	**444,575**
Net assets:						
Beginning of year	3,345,112	1,661,542	5,006,654	2,623,409	1,938,670	4,562,079
End of year	**$ 5,891,445**	**$ 1,492,500**	**$ 7,383,945**	**$ 3,345,112**	**$ 1,661,542**	**$ 5,006,654**

See notes to financial statements.

THE LITERACY LAB

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JULY 31, 2020

	Program services			Supporting services		
	Reading Corps	Leading Men Fellowship	Total program services	Management and general	Fundraising	Total
Payroll expenses:						
Staff salaries	$ 2,752,381	$ 1,463,706	$ 4,216,087	$ 275,393	$ 225,708	$ 4,717,188
Tutor living allowances	4,340,211		4,340,211			4,340,211
Fringe benefits	666,133	37,764	703,897	24,527	15,203	743,627
Payroll:						
Taxes	473,330	113,094	586,424	89,729	45,447	721,600
Fees	45,038	10,912	55,950	9,036	4,305	69,291
Total payroll expenses	**8,277,093**	**1,625,476**	**9,902,569**	**398,685**	**290,663**	**10,591,917**
Direct program expenses:						
Coaches and program consultants	14,588	2,540	17,128			17,128
Program:						
Fees	241,532		241,532			241,532
Supplies	62,606	24,872	87,478			87,478
Training costs	112,108	51,682	163,790			163,790
Program-related travel	39,753	9,968	49,721			49,721
Recruitment expenses	62,313	194	62,507			62,507
Tutor meetings and social events	10,012	739	10,751			10,751
Security background checks	26,297	815	27,112			27,112
Education awards		68,800	68,800			68,800
Other direct program expenses	4,211		4,211			4,211
Total direct program expenses	**573,420**	**159,610**	**733,030**			**733,030**
General and administrative expenses:						
Rent	223,252	54,100	277,352	34,304	21,279	332,935
Professional fees	97,268	21,072	118,340	12,838	290,144	421,322
Accounting and audit	15,016	3,575	18,591	2,307	1,432	22,330
Office expense	38,260	12,003	50,263	4,859	3,244	58,366
License and fees	47,581	4,767	52,348	3,076	2,258	57,682
Corporate insurance	28,062	6,681	34,743	4,312	2,674	41,729
Travel, food and beverage	18,481	13,662	32,143	1,602	1,098	34,843
Staff retreats and events	19,092	4,218	23,310	2,722	1,689	27,721
Telephone and internet	14,632	3,476	18,108	2,243	1,392	21,743
Professional development	8,796	1,382	10,178	892	553	11,623
Postage and delivery	1,015	291	1,306	110	76	1,492
Advertising and marketing	608	248	856	77	560	1,493
Depreciation	26,727	6,363	33,090	4,107	2,547	39,744
Total other general and adminstrative expenses	**538,790**	**131,838**	**670,628**	**73,449**	**328,946**	**1,073,023**
Total functional expenses	**$ 9,389,303**	**$ 1,916,924**	**$ 11,306,227**	**$ 472,134**	**$ 619,609**	**$ 12,397,970**

See notes to financial statements.

THE LITERACY LAB

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JULY 31, 2019

	Program services			Supporting services		
	Reading Corps	Leading Men Fellowship	Total program services	Management and general	Fundraising	Total
Payroll expenses:						
Staff salaries	$ 1,562,386	$ 1,011,249	$ 2,573,635	$ 204,708	$ 168,372	$ 2,946,715
Tutor living allowances	4,204,124		4,204,124			4,204,124
Fringe benefits	525,860	34,417	560,277	12,963	8,380	581,620
Payroll:						
Taxes	412,384	99,161	511,545	36,820	24,263	572,628
Fees	32,158	7,803	39,961	2,789	1,894	44,644
Total payroll expenses	**6,736,912**	**1,152,630**	**7,889,542**	**257,280**	**202,909**	**8,349,731**
Direct program expenses:						
Coaches and program consultants	972,167	296,397	1,268,564			1,268,564
Program:						
Fees	230,725		230,725			230,725
Supplies	46,319	31,770	78,089			78,089
Training costs	87,877	49,771	137,648			137,648
Program-related travel	37,759	56,611	94,370			94,370
Recruitment expenses	38,916	3,283	42,199			42,199
Tutor meetings and social events	19,755	28,031	47,786			47,786
Security background checks	28,602	1,452	30,054			30,054
Education awards		139,000	139,000			139,000
Other direct program expenses	5,268	1,861	7,129			7,129
Total direct program expenses	**1,467,388**	**608,176**	**2,075,564**			**2,075,564**
Other general and administrative expenses:						
Rent	172,354	42,405	214,759	15,780	9,938	240,477
Professional fees	36,220	6,028	42,248	2,294	56,445	100,987
Accounting and audit	15,560	3,743	19,303	1,425	897	21,625
Office expense	22,406	5,539	27,945	1,692	1,281	30,918
License and fees	36,928	4,732	41,660	1,801	1,134	44,595
Corporate insurance	27,845	6,697	34,542	2,549	1,606	38,697
Travel, food and beverage	19,069	12,203	31,272	1,174	1,924	34,370
Staff retreats and events	14,358	3,591	17,949	1,310	825	20,084
Telephone and internet	7,613	1,831	9,444	697	439	10,580
Professional development	10,135	4,886	15,021	629	397	16,047
Postage and delivery	1,586	443	2,029	130	174	2,333
Advertising and marketing	282	337	619	26	346	991
Depreciation	765	184	949	8,426	44	9,419
Total general and administrative expenses	**365,121**	**92,619**	**457,740**	**37,933**	**75,450**	**571,123**
Total functional expenses	**$ 8,569,421**	**$ 1,853,425**	**$ 10,422,846**	**$ 295,213**	**$ 278,359**	**$ 10,996,418**

See notes to financial statements.

THE LITERACY LAB

STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 2,377,291	$ 444,575
Adjustments:		
Depreciation	39,744	9,419
(Increase) decrease in:		
Accounts receivable	(454,422)	260,251
Grants receivable	(35,706)	106,853
Contributions receivable	167,358	531,812
Prepaid expenses	86,220	(49,529)
Deposits	5,163	(19,250)
Increase (decrease) in:		
Accounts payable and accrued expenses	7,190	(16,130)
Accrued payroll and payroll liabilities	78,288	54,870
Deferred revenue	(78,129)	(337,368)
Deferred rent	43,093	147
Refundable advance	204,699	
Total adjustments	**63,498**	**541,075**
Net cash provided by operating activities	**2,440,789**	**985,650**
Cash flows used in investing activities, purchase of fixed assets	(144,451)	(83,042)
Net increase in cash and cash equivalents	**2,296,338**	**902,608**
Cash:		
Beginning of year	3,732,841	2,830,233
End of year	**$ 6,029,179**	**$ 3,732,841**

Supplemental disclosures of cash flow information:
$11,036 of fixed asset purchases are included in accounts payable at July 31, 2019

See notes to financial statements.

1. Nature of activities and summary of significant accounting policies:

Nature of activities:

The Literacy Lab (the Organization) was incorporated in 2010 under the laws of the Commonwealth 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 2020, the Organization served over 6,300 children in Washington, DC; Alexandria, VA; Baltimore, MD; Kansas City, MO; Richmond, VA; Springfield, MA and Milwaukee, WI. In 2016, the Organization also launched the Leading Men Fellowship, a program that centers and empowers local young men of color to take a leadership role in closing the literacy gap in their own communities while building skills they need to embark on a family-sustaining career. 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.

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 requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Tax status:

The Organization has been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and files a federal form 990 annually.

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.

1. Nature of activities and summary of significant accounting policies (continued):

Accounts and grants receivable:

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, 2020 and 2019, 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.

Fixed assets:

Fixed assets are recorded at cost. Contributed assets are recorded at fair value. If an individual or group 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 other than those included in fixed assets in progress.

Deferred revenue:

The Organization recognizes revenue from operations in the period in which services are provided. Deferred revenues represent payments received for services that have not yet been provided at year end.

1. Nature of activities and 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 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 are evaluated when received to determine if they are exchange transactions or non-exchange transactions. Grants that fund the Organization’s overall mission and do not contain any performance obligations are considered non-exchange transactions and are generally recorded as revenue when received.

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 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.

Certain grant revenues received from federal agencies and the District of Columbia contain specific performance obligations. For these grants, the Organization tracks the progress on each performance obligation and recognizes revenue as eligible 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.

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.

1. Nature of activities and summary of significant accounting policies (continued):

Donated services and materials:

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 $1,493 and $991 were incurred during the years ended July 31, 2020 and 2019, respectively.

Functional allocation of expenses:

The Organization's expenses are summarized on a functional basis in the statements of functional expenses. Expenses relating to more than one function are allocated to program and supporting services based on employee time studies. Accordingly, certain costs have been allocated among the program and supporting services benefited. Costs directly related to the program or supporting service are charged directly to the program or supporting service.

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.

1. Nature of activities and summary of significant accounting policies (continued):

Recently issued accounting standards:

Revenue:

FASB Accounting Standards Update (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 2021 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 2023 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.

2. Adoption of new accounting pronouncement:

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope of accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improved guidance to better distinguish between conditional and unconditional contributions.

Effective August 1, 2019, the Organization adopted ASU 2018-08 using the modified retrospective method and there was no quantitative impact as a result of adopting ASU 2018-08.

3. Financial assets and liquidity resources:

As of July 31, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, payments of liabilities and purchases of property and equipment, were as follows:

	2020	2019
Financial assets and liquidity resources:		
Cash	$ 6,029,179	$ 3,732,841
Receivables:		
Accounts receivable	516,487	62,065
Grants receivable	740,933	705,227
Contributions receivable	443,500	610,858
Net assets with donor restrictions	(1,492,500)	(1,661,542)
Total financial assets and liquidity resources available within one year	$ 6,237,599	$ 3,449,449

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due.

To help manage liquidity needs, the Organization has access to a $300,000 line of credit. At July 31, 2020 and 2019, the full amount was available for use.

4. Fixed assets

Classification of fixed assets and their estimated useful lives as of July 31, 2020 and 2019 were as summarized below:

	Estimated useful life (years)	2020	2019
Website and database	3	$ 155,652	$ 45,222
Computers	3	4,624	4,624
Office Furniture	7	107,497	
Fixed assets, in progress	N/A		84,512
Total cost		267,773	134,358
Accumulated depreciation		81,087	41,343
Net book value		$ 186,686	$ 93,015

5. Paycheck protection program:

The Paycheck Protection Program was established under the CARES Act on March 27, 2020, and was designed to provide cash-flow assistance to small businesses, including certain not-for-profit organizations. This program provides relief as a result of the Coronavirus pandemic with loan funds to pay up to 24 weeks of payroll costs, including fringe benefits, rent and utilities, commencing on the date of loan origination. The Paycheck Protection Program is a loan program that is guaranteed in its entirety through the Small Business Administration and offers a maturity of two years and an interest rate of one percent (1%). The principal amount of the loan may be partially or fully forgiven if the loan funds are utilized in manner consistent with the allowable use of loan proceeds.

Management of the Organization anticipates total forgiveness, and the funds are being reported in accordance with FASB ASC 958-605. Due to the forgiveness being conditional on incurring the qualified expenses, the funds were accounted for as a refundable advance on the statement of financial position and were recognized as contribution revenue as the qualified expenses were incurred. The Organization applied for and received loan proceeds totaling $1,872,900 in April 2020. As of July 31, 2020, $1,668,201 had been recognized as contribution income since the conditions upon which the loan proceeds were provided has been substantially met.

6. Net assets with donor restrictions:

Net assets with donor restrictions are comprised of contributions received from various grants and donors, which are available to support future projects or operations. Net assets with donor restrictions as of July 31, 2020 and 2019 were available for the following:

	2020	2019
Purpose restricted:		
Program services:		
Reading Corps	$ 366,500	$ 838,897
Leading Men Fellowship	541,000	714,765
Recruitment and development	110,000	
Government relations	250,000	
DEI initiative		7,880
Office relocation		80,000
Total purpose restricted	1,267,500	1,641,542
Time restricted	225,000	20,000
Total net assets with donor restrictions	$ 1,492,500	$ 1,661,542

7. 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, 2020 and 2019, the Organization expended funds from net assets with donor restrictions as follows:

	2020	2019
Purpose restriction incurred:		
Program services:		
Reading Corps	$ 1,501,897	$ 1,377,760
Leading Men Fellowship	1,725,265	936,722
DEI initiative	7,880	2,120
Office relocation	80,000	
Ready to Read		1,000
Practice development		250
Recruitment		110,000
Total released for purpose restrictions	3,315,042	2,427,852
Time restriction expired	20,000	94,885
Total net assets released from restrictions	$ 3,335,042	$ 2,522,737

8. Commitments:

Operating Sublease – 1400 16th Street, NW (Washington, DC):

The Organization entered into a lease agreement with Resources & Conservation Center LLC. on January 29, 2019 for the rent of office space located at 1400 16th Street NW, Washington, DC. The lease term commenced on August 17, 2019. Pursuant to the terms of the lease agreement, the landlord shall fully abate the base rent for the months of September and October 2019. Monthly base rent payments of $18,700 commence on November 1, 2019. The lease calls for a yearly escalation of 2.5%, effective August 1st of each year. As a requirement of this lease, a security deposit in the amount of $18,700 was made. Rental expense related to this lease for the year ended July 31, 2020 was $220,730.

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 ended in August 2019. Rental expense related to this lease for the years ended July 31, 2020 and 2019 was $11,756 and $141,074, respectively.

8. Commitments (continued):

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

The Organization renewed the sublease agreement with Turn the Page for the rental of office space at 4049 Pennsylvania Avenue, Kansas City, MO. The lease renewal is effective for a period of thirty-six (36) months beginning on January 1, 2019 and expiring on December 31, 2021. Pursuant to the terms of the sublease agreement, the monthly rent amount is $1,742. The lease calls for a monthly escalation of $53, effective January 1st of each year. 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, 2020 and 2019 was $23,857 and $20,801, 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 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. The lease was extended for an additional three years commencing on December 1, 2020 and calls for a yearly escalation of 3%. 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, 2020 and 2019 was $32,616 and $33,494, 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 12 months beginning on June 1, 2018 and expiring on June 30, 2019. The lease was amended on June 19, 2019 to extend the term of the lease to June 30, 2020. 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. A new lease was signed in June 2020 and is effective for a period of 24 months beginning on July 1, 2020 and expiring on June 30, 2022. Pursuant to the terms of the lease, monthly rent shall be $700 per month. As a requirement of this lease a security deposit in the amount of $700 was made. Rental expense related to this lease for the years ended July 31, 2020 and 2019 was $5,100 and $4,800, respectively.

8. Commitments (continued):

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

As of July 31, 2020, future minimum rental obligations required under these operating leases and subleases are as follows:

Year ending July 31,	
2021	$ 295,427
2022	288,021
2023	277,554
2024	262,653
2025	116,107
Totals	$ 1,239,762

Membership Agreements – 2920 W. Broad Street, Richmond, VA:

The Organization entered into a membership agreement with Gather, LLC on March 5, 2018 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, 2020 and 2019 was $6,565 and $6,600, respectively.

On August 1, 2018, a separate membership agreement was executed for use of an office located at 2920 W. Broad St., Richmond, VA. This membership agreement calls for 12 monthly payments of $550, commencing on August 1, 2018. The lease is currently month-to-month. 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, 2020 and 2019 was $6,600 and $6,600, respectively

On December 1, 2018, a separate membership agreement was executed for use of an office located at 2920 W. Broad St., Richmond, VA. This membership agreement calls for month-to-month payments of $940, commencing on December 7, 2018. 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 years ended July 31, 2020 and 2019 was $11,503 and $7,338, respectively.

8. Commitments (continued):

Parking:

The Organization pays monthly to rent up to five (5) parking spaces that could effectively be cancelled at any point in time. Rental expense related to these parking spaces for the years ended July 31, 2020 and 2019 was $13,258 and $14,500, respectively.

9. Line of credit:

The Organization has a $300,000 line of credit note with PNC Bank. Borrowings under the line bear interest at the *Wall Street Journal* Prime Rate plus 0.68% (3.25% at July 31, 2020). 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, 2021). There have been no drawdowns on the line of credit, and there was no outstanding balance on the line of credit at July 31, 2020 and 2019. The agreement requires the Organization to comply with certain non-financial covenants.

10. Concentrations:

The Organization holds its cash in checking and money market accounts at one financial institution. At July 31, 2020 and 2019, the total cash balance reported by the bank exceeded the Federal Deposit Insurance Corporation (FDIC) limit of $250,000 by approximately $5,611,000 and $3,269,000, 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.

Total support attributable to grants and contributions was 75% and 70% for the years ended July 31, 2020 and 2019, 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.

11. Related party transactions:

Various board members and family members of board members of the Organization contributed to the Organization. These contributions totaled $139,300 and $155,350 during the years ended July 31, 2020 and 2019, respectively.

12. 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. Therefore, no expense has been recorded for the years ended July 31, 2020 and 2019.

13. Risks and uncertainties:

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has caused business disruption to many industries, due to state government-imposed shutdowns of businesses and other results of the illness, such as cancellation of large group events. While the Organization expects this matter may negatively impact its results, the extent of the impact of COVID-19 on the Organization’s operations is highly uncertain and cannot be predicted.

Due to the school closures in the wake of the COVID-19 pandemic, all Literacy Lab tutors moved to conducting remote service and professional development. Tutors have helped create resources, engaged in community outreach and created video content for their students. As school closures continue thru the 2020-21 school year, The Literacy Lab will continue to work with its school partners, school districts and state governments to support students remotely.

The Literacy Lab will continue to sustain its program services by pursuing a balanced stream of funding from public institutions, private philanthropy and school contracts. The Literacy Lab’s strong relationships with school partners and funders are a critical component of its sustainability as the Organization leverages federal and state AmeriCorps support with financial commitments from partner schools and private philanthropic contributions.

Overall, The Literacy Lab remains financially stable in fiscal year 2021. As the Organization looks beyond 2021, it is preparing for the protracted economic impact of the pandemic on public funding sources. To protect against this uncertainty, The Literacy Lab is preserving and building its reserve and continuing to invest in development and government relations efforts.

14. Subsequent events:

Management evaluated subsequent events through January 19, 2021, the date the financial statements were available to be issued.

SCHEDULE OF REVENUES AND EXPENSES – DEPARTMENT OF WORKFORCE DEVELOPMENT –
CONTRACT NO. 44500-O18-ILH0024-01
YEAR ENDED JULY 31, 2020
(See independent auditor's report)

	Approved contract budget	Total contract costs through July 31, 2020	
		Reported	Actual costs
Budget categories:			
Salaries	$ 130,000	$ 130,000	$ 130,000
Fringe benefits	19,500	19,500	19,500
Marketing, participant training and placement	263,500	263,500	263,500
Supplies and other expenses	87,000	87,000	87,000
Total	$ 500,000	$ 500,000	$ 500,000

Grant funds received by year:	
7/31/2018	$ 500,000
Project costs expended by year:	
7/31/2018	$ 32,503
7/31/2019	337,368
7/31/2020	130,129
	$ 500,000

Notes to schedule of revenues and expenses – Department of Workforce Development:

Significant accounting policies and general information:

The accompanying schedule of revenues and expenses – Department of Workforce Development (DWD) includes the DWD award activity of the Organization only and is presented on the accrual basis of accounting. 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.

Contract period:

The DWD Grant contract period ran from March 23, 2018 to March 22, 2020.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JULY 31, 2020
(See independent auditor's report)

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantors number	Federal expenditures
Corporation for National and Community Services:			
2019 AmeriCorps National Direct Grant	94.006	N/A	$ 1,625,512
Passed Through the Virginia Department of Social Services, VA Reading Corps	94.006	N/A	726,178
Passed Through the Missouri Community Service Foundation:			
MO Reading Corps	94.006	N/A	531,720
MO Reading Corps - Planning Grant	94.006	N/A	42,039
Passed Through the Maryland Governor's Office on Service and Volunteerism, MD Reading Corps	94.006	N/A	340,300
Passed Through the Massachusetts Service Alliance, MA Reading Corps	94.006	N/A	298,639
Total Corporation for National and Community Services			**3,564,388**
U.S. Department of Education:			
Passed Through the District of Columbia, SOAR Act - Nonprofit Third Party Organization Support Organization Grant	84.370C	N/A	77,848
U.S. Department of Health and Human Services:			
Passed Through the Wisconsin Department of Children and Families, Preschool Development Grant Birth to Five	93.434	N/A	146,835
Total federal awards			**$ 3,789,071**

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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JULY 31, 2020
(See independent auditor's report)

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 Auditor's 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, 2020 and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated January 19, 2021.

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 Sheridan & Fritz

Camp Hill, Pennsylvania
January 19, 2021

Independent Auditor's 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, 2020. The Literacy Lab's major federal program is identified in the summary of auditor's 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.

Auditor's 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, 2020.

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
January 19, 2021

THE LITERACY LAB

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JULY 31, 2020

I. SUMMARY OF AUDITOR'S RESULTS:

Financial statements

Type of auditor's 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 auditor's 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 program:

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, 2020

I. SUMMARY OF AUDITOR'S RESULTS (continued):

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000	
Auditee qualified as low-risk auditee?	_X_ yes	_____ no

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

THE LITERACY LAB

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JULY 31, 2020

There were no prior audit findings reported.