

THE LITERACY LAB

YEARS ENDED
JULY 31, 2022 AND 2021



BROWN SCHULTZ
SHERIDAN & FRITZ

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

THE LITERACY LAB

YEARS ENDED JULY 31, 2022 AND 2021

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Independent Auditor's Report

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

Opinion

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, 2022 and 2021 and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of July 31, 2022 and 2021 and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance; and therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. 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 expenditures of federal awards has 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 expenditures of federal awards is 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 26, 2023, 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 Steidman & Fritz

Camp Hill, Pennsylvania
January 26, 2023

THE LITERACY LAB

STATEMENTS OF FINANCIAL POSITION JULY 31, 2022 AND 2021

ASSETS

	2022	2021
Current assets:		
Cash	\$ 10,685,556	\$ 7,050,276
Accounts receivable, net of allowance for doubtful accounts of \$112,500	980,705	350,027
Grants receivable	2,351,447	624,961
Contributions receivable	8,911,666	929,000
Prepaid expenses	297,489	76,889
Total current assets	23,226,863	9,031,153
Fixed assets, net	77,038	131,330
Other assets, security deposits	29,877	25,352
Total assets	\$ 23,333,778	\$ 9,187,835

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 157,323	\$ 123,244
Accrued payroll and payroll liabilities	387,752	236,636
Deferred rent	47,617	40,374
Total liabilities, all current	592,692	400,254
Net assets without donor restrictions:		
Undesignated	18,290,831	6,580,581
Board designated	141,255	110,000
Total net assets without donor restrictions	18,432,086	6,690,581
Net assets with donor restrictions	4,309,000	2,097,000
Total net assets	22,741,086	8,787,581
Total liabilities and net assets	\$ 23,333,778	\$ 9,187,835

See notes to financial statements.

THE LITERACY LAB

STATEMENTS OF ACTIVITIES
YEARS ENDED JULY 31, 2022 AND 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues and other support:						
Government grants	\$ 8,907,094		\$ 8,907,094	\$ 6,025,269		\$ 6,025,269
Contributions and other grants	10,591,679	\$ 5,625,730	16,217,409	701,454	\$ 3,473,892	4,175,346
Program service fees, tutoring	4,109,737		4,109,737	3,602,744		3,602,744
Donated services	138,699		138,699	86,593		86,593
Interest and other income	5,226		5,226	12,510		12,510
Net assets released from restrictions	3,413,730	(3,413,730)	-	2,869,392	(2,869,392)	-
Total revenues and other support	27,166,165	2,212,000	29,378,165	13,297,962	604,500	13,902,462
Expenses:						
Program services	13,525,695		13,525,695	11,114,545		11,114,545
Management and general	820,895		820,895	589,423		589,423
Fundraising	1,078,070		1,078,070	794,858		794,858
Total expenses	15,424,660		15,424,660	12,498,826		12,498,826
Changes in net assets	11,741,505	2,212,000	13,953,505	799,136	604,500	1,403,636
Net assets:						
Beginning of year	6,690,581	2,097,000	8,787,581	5,891,445	1,492,500	7,383,945
End of year	\$ 18,432,086	\$ 4,309,000	\$ 22,741,086	\$ 6,690,581	\$ 2,097,000	\$ 8,787,581

See notes to financial statements.

THE LITERACY LAB

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JULY 31, 2022

	Program services			Supporting services		Total
	Reading Corps	Leading Men Fellowship	Total program services	Management and general	Fundraising	
Payroll expenses:						
Staff salaries	\$ 4,540,290	\$ 1,487,114	\$ 6,027,404	\$ 642,505	\$ 457,696	\$ 7,127,605
Leading men fellow salaries		518,159	518,159			518,159
Tutor living allowances	3,478,642		3,478,642			3,478,642
Fringe benefits	627,332	93,391	720,723	30,756	25,253	776,732
Payroll:						
Taxes	607,753	179,615	787,368	58,895	47,703	893,966
Fees	60,091	17,357	77,448	5,537	4,346	87,331
Total payroll expenses	9,314,108	2,295,636	11,609,744	737,693	534,998	12,882,435
Direct program expenses:						
Program:						
Fees	301,604		301,604			301,604
Supplies	85,780	72,287	158,067			158,067
Training costs	32,524	39,829	72,353			72,353
Program-related travel	9,554	3,318	12,872			12,872
Recruitment expenses	134,131	15,404	149,535			149,535
Security background checks	25,135	2,185	27,320			27,320
Education awards		50,000	50,000			50,000
Regional discretionary	47,925	30,327	78,252			78,252
Other direct program expenses	4,497		4,497			4,497
Total direct program expenses	641,150	213,350	854,500			854,500
General and administrative expenses:						
Rent	240,673	46,263	286,936	14,965	11,225	313,126
Professional fees	233,686	79,267	312,953	23,496	488,881	825,330
Accounting and audit				20,550		20,550
Office expense	116,131	45,020	161,151	6,924	4,857	172,932
License and fees	46,228	7,323	53,551	1,668	1,497	56,716
Corporate insurance	34,981	10,383	45,364	3,572	2,707	51,643
Travel, food and beverage	13,342	11,787	25,129	657	2,294	28,080
Staff retreats and events	6,473	2,709	9,182	725	3,832	13,739
Telephone and internet	46,577	13,101	59,678	3,772	4,123	67,573
Professional development	32,636	5,921	38,557	1,783	1,469	41,809
Postage and delivery	2,747	1,639	4,386	151	140	4,677
Advertising and marketing	12,817	3,995	16,812	1,194	19,252	37,258
Depreciation	36,944	10,808	47,752	3,745	2,795	54,292
Total other general and administrative expenses	823,235	238,216	1,061,451	83,202	543,072	1,687,725
Total functional expenses	\$ 10,778,493	\$ 2,747,202	\$ 13,525,695	\$ 820,895	\$ 1,078,070	\$ 15,424,660

See notes to financial statements.

THE LITERACY LAB

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JULY 31, 2021

	Program services			Supporting services		Total
	Reading Corps	Leading Men Fellowship	Total program services	Management and general	Fundraising	
Payroll expenses:						
Staff salaries	\$ 3,224,726	\$ 789,643	\$ 4,014,369	\$ 367,702	\$ 263,495	\$ 4,645,566
Leading men fellow salaries		390,636	390,636			390,636
Tutor living allowances	4,007,293		4,007,293			4,007,293
Fringe benefits	548,870	34,980	583,850	32,442	17,024	633,316
Payroll:						
Taxes	519,694	94,094	613,788	81,367	46,596	741,751
Fees	54,461	10,299	64,760	10,421	4,682	79,863
Total payroll expenses	8,355,044	1,319,652	9,674,696	491,932	331,797	10,498,425
Direct program expenses:						
Program:						
Fees	232,245		232,245			232,245
Supplies	68,387	29,615	98,002			98,002
Training costs	14,350	7,901	22,251			22,251
Program-related travel	2,040	205	2,245			2,245
Recruitment expenses	80,975	130	81,105			81,105
Security background checks	21,585	148	21,733			21,733
Education awards		52,500	52,500			52,500
Regional discretionary	50,676	4,785	55,461			55,461
Other direct program expenses	2,840		2,840			2,840
Total direct program expenses	473,098	95,284	568,382			568,382
General and administrative expenses:						
Rent	206,511	38,581	245,092	29,017	18,611	292,720
Professional fees	183,483	53,366	236,849	24,764	422,718	684,331
Accounting and audit				17,660		17,660
Office expense	57,355	12,000	69,355	7,887	5,184	82,426
License and fees	44,861	3,359	48,220	2,520	3,271	54,011
Corporate insurance	31,672	5,832	37,504	4,413	2,814	44,731
Travel, food and beverage	4,477	835	5,312	109	385	5,806
Staff retreats and events	2,251	300	2,551	238	155	2,944
Telephone and internet	28,718	4,561	33,279	2,681	1,963	37,923
Professional development	17,661	1,585	19,246	1,252	814	21,312
Postage and delivery	3,948	221	4,169	103	65	4,337
Advertising and marketing	9,282	1,685	10,967	1,391	3,605	15,963
Depreciation	39,198	7,225	46,423	5,456	3,476	55,355
Bad debts	112,500		112,500			112,500
Total other general and administrative expenses	741,917	129,550	871,467	97,491	463,061	1,432,019
Total functional expenses	\$ 9,570,059	\$ 1,544,486	\$ 11,114,545	\$ 589,423	\$ 794,858	\$ 12,498,826

See notes to financial statements.

THE LITERACY LAB

STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 13,953,505	\$ 1,403,636
Adjustments:		
Depreciation	54,292	55,355
Bad debts		112,500
(Increase) decrease in:		
Accounts receivable	(630,678)	53,960
Grants receivable	(1,726,486)	115,972
Contributions receivable	(7,982,666)	(485,500)
Prepaid expenses	(220,600)	24,083
Deposits	(4,525)	(625)
Increase (decrease) in:		
Accounts payable and accrued expenses	34,079	(25,923)
Accrued payroll and payroll liabilities	151,116	27,491
Deferred revenue		(52,000)
Deferred rent	7,243	(3,153)
Refundable advance		(204,699)
Total adjustments	<u>(10,318,225)</u>	<u>(382,539)</u>
Net cash provided by operating activities and change in cash	3,635,280	1,021,097
Cash:		
Beginning of year	<u>7,050,276</u>	<u>6,029,179</u>
End of year	<u>\$ 10,685,556</u>	<u>\$ 7,050,276</u>

See notes to financial statements.

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

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 2022, 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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities in up to two classes of net assets:

Without donor restrictions:

Net assets without donor restrictions are those not subject to the donor-imposed restrictions. The board may earmark net assets without donor restrictions for future program expenses, purchase of fixed assets or other uses.

With donor restrictions:

Net assets with donor restrictions are those subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

1. Nature of activities and 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.

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. However, as of July 31, 2022, approximately 75% of the Organization's contributions receivable was due from a single donor.

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.

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

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

Revenue recognition:

The Organization generates revenue through the contributions, grants and program service fees.

Contributions:

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. All contributions are considered non-exchange transactions for the years ended July 31, 2022 and 2021.

Grants:

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.

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

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

Revenue recognition:

Program service fees:

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.

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 \$37,258 and \$15,963 were incurred during the years ended July 31, 2022 and 2021, 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.

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

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

Use of estimates:

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

The most sensitive accounting estimates affecting the financial statements are management's allocation of functional expenses, which is based on employee time studies of time spent performing program; and management duties and management's estimate of depreciation of fixed assets, which is based on historical costs and estimated useful lives of fixed assets purchased.

Income taxes:

The Organization has been recognized as exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes and files federal Form 990, *Return of Organization Exempt from Income Tax*, with the Internal Revenue Service on an annual basis.

Recently issued accounting standards:

Leases:

FASB Accounting Standards Update (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.

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

2. Adoption of new accounting pronouncement:

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures for Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard will require contributed nonfinancial assets to be a separate line item in the statement of activities and enhanced disclosures. The required disclosures include a disaggregation of the amount of contributed nonfinancial assets recognized in the statement of activities by category that depicts the type of contributed nonfinancial assets and for each category of contributed nonfinancial assets: 1) qualitative information regarding utilization or monetization of the contributed nonfinancial assets, 2) the programs or activities the contributed nonfinancial assets were utilized for, 3) the entity's policy for monetizing rather than utilizing contributed nonfinancial assets (if applicable), 4) a description of any donor-imposed restrictions on the nonfinancial assets, 5) a description of the valuation techniques and inputs used to arrive at the fair market value assigned to the contributed nonfinancial assets and 6) the principal market used to arrive at a fair value measure if it is a market in which the recipient not-for-profit is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial asset.

Effective August 1, 2021, the Organization adopted ASU 2020-07 using the full retrospective method. There was no quantitative impact as a result of adopting ASU 2020-07.

3. Financial assets and liquidity resources:

As of July 31, 2022 and 2021, 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:

	<u>2022</u>	<u>2021</u>
Financial assets and liquidity resources:		
Cash	\$ 10,685,556	\$ 7,050,276
Receivables:		
Accounts receivable	980,705	350,027
Grants receivable	2,351,447	624,961
Contributions receivable	8,911,666	929,000
Net assets with donor restrictions	<u>(4,309,000)</u>	<u>(2,097,000)</u>
 Total financial assets and liquidity resources available within one year	 <u><u>\$ 18,620,374</u></u>	 <u><u>\$ 6,857,264</u></u>

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

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2022 AND 2021

3. Financial assets and liquidity resources (continued):

To help manage liquidity needs, the Organization has access to a \$300,000 line of credit. At July 31, 2022 and 2021, the full amount was available for use.

4. Fixed assets

Classification of fixed assets and their estimated useful lives as of July 31, 2022 and 2021 were as summarized below:

	Estimated useful life (years)	2022	2021
Website and database	3	\$ 155,652	\$ 155,652
Computers	3	1,048	1,048
Office furniture	7	107,497	107,497
Total cost		264,197	264,197
Accumulated depreciation		187,159	132,867
Net book value		\$ 77,038	\$ 131,330

5. Board-designated net assets:

Net assets without donor restrictions that have been board designated as of July 31, 2022 and 2021 were \$141,255 and 110,000, respectively, for the Johnson Dillon Fund. The Johnson Dillon Fund is board designated for the purpose of basic needs support, college scholarships and mental health support to the Organization's tutors and fellows.

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2022 AND 2021

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, 2022 and 2021 were available for the following:

	<u>2022</u>	<u>2021</u>
Purpose restricted:		
Program services:		
Reading Corps	\$ 1,556,833	\$ 1,044,500
Leading Men Fellowship	2,277,167	152,500
Recruitment and development		110,000
Capacity building		45,000
	<u>3,834,000</u>	<u>1,352,000</u>
Total purpose restricted	3,834,000	1,352,000
Time restricted	<u>475,000</u>	<u>745,000</u>
Total net assets with donor restrictions	<u>\$ 4,309,000</u>	<u>\$ 2,097,000</u>

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

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, 2022 and 2021, the Organization expended funds from net assets with donor restrictions as follows:

	<u>2022</u>	<u>2021</u>
Purpose restriction incurred:		
Program services:		
Reading Corps	\$ 2,073,167	\$ 849,500
Leading Men Fellowship	435,063	1,011,000
Government relations		437,235
Administration		232,765
COVID-19		3,892
Capacity building	45,000	
Lobbying	400,000	
Strategic planning	5,500	
Recruitment	<u>110,000</u>	<u>110,000</u>
Total released for purpose restrictions	3,068,730	2,644,392
Time restriction expired	<u>345,000</u>	<u>225,000</u>
Total net assets released from restrictions	<u>\$ 3,413,730</u>	<u>\$ 2,869,392</u>

8. Commitments:

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

The Organization entered into a 65-month 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, 2022 and 2021 was \$220,576 and \$201,527, respectively.

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

8. Commitments (continued):

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

The Organization entered into a lease agreement with Sky Views Real Estate for the rental of office space at 4049 Pennsylvania Avenue, Kansas City, MO. The lease is effective for a period of twenty-four (24) months beginning on January 1, 2022 and expiring on December 31, 2023. Pursuant to the terms of the lease agreement, the monthly base rent amount is \$1,783 from January 1, 2022 through December 31, 2022, and increases to \$1,837 for January 1, 2023 through December 31, 2023. As a requirement of this lease, a security deposit in the amount of \$1,783 was made. Rental expense (including utilities) related to this lease for the years ended July 31, 2022 was \$12,484.

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 was 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 was \$1,185 from December 1, 2017 through November 30, 2018, and increased 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, 2022 and 2021 was \$35,403 and \$33,165, 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 was 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 was \$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 was 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 was \$8,400 for each of the years ended July 31, 2022 and 2021.

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

8. Commitments (continued):

Operating Lease – 800 Bank Street (Cincinnati, Ohio):

The Organization entered into a lease agreement with CityLink Center, an Ohio nonprofit corporation for the rental of office space at 800 Bank Street, Cincinnati, OH. This lease is effective for a period of 24 months beginning on July 1, 2022 and expiring on June 30, 2024. Pursuant to the terms of the lease, monthly base rent shall be \$1,775 from July 1, 2022 through June 30, 2024. Rental expense (including operating expenses) related to this lease for the year ended July 31, 2022 was \$1,330.

As of July 31, 2022, future minimum rental obligations required under these operating leases and subleases are as follows:

Year ending July 31,	
2023	\$ 304,292
2024	265,294
2025	<u>108,108</u>
Totals	<u>\$ 677,694</u>

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

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 called for month-to-month payments of \$940, commencing on December 7, 2018. On April 16, 2021, a new membership agreement was signed related to the same office. The membership agreement calls for 12 monthly payments of \$1,260. As a requirement of this new membership agreement, a security deposit in the amount of \$1,260 was made. Rental expense related to this membership agreement for the years ended July 31, 2022 and 2021 was \$15,233 and \$12,240, respectively.

Membership Agreements – 700 Tech Center Pkwy #200, Newport News, VA:

On October 20, 2020, a separate membership agreement was executed for use of an office located at 700 Tech Center Pkwy #200, Newport News, VA. This membership agreement calls for 12 monthly payments of \$625, commencing on October 20, 2020. As a requirement of this new membership agreement, a security deposit in the amount of \$625 was made. Rental expense related to this membership agreement for the years ended July 31, 2022 and 2021 was \$8,075 and \$6,102, respectively.

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

8. Commitments (continued):

Membership Agreements – 500 E. Main Street, 16th Floor, Suite 1535, Norfolk, VA, 23510:

On October 1, 2021, a separate membership agreement was executed for use of an office located at 1400 16th Street NW, Suite 410, Washington, D.C. This membership agreement calls for 12 monthly payments of \$475, commencing on October 1, 2021. As a requirement of this new membership agreement, a security deposit in the amount of \$475 was made. Rental expense related to this membership agreement for the year ended July 31, 2022 was \$4,275.

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% (5.50% at July 31, 2022). 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, 2022). There have been no drawdowns on the line of credit, and there was no outstanding balance on the line of credit at July 31, 2022 and 2021. The Organization is in compliance with certain non-financial covenants required by the agreement.

10. Concentrations:

The Organization holds its cash in checking and money market accounts at one financial institution. At July 31, 2022 and 2021, the total cash balance reported by the bank exceeded the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 by approximately \$10,432,000 and \$6,583,000, 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 86% and 73% of total revenues for the years ended July 31, 2022 and 2021, 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. In addition, approximately 34% of total revenues was received from a single donor during the year ended July 31, 2022.

11. Related party transactions:

Various board members and family members of board members of the Organization contributed to the Organization. These contributions totaled \$22,005 and \$67,150 during the years ended July 31, 2022 and 2021, respectively.

THE LITERACY LAB

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JULY 31, 2022 AND 2021

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, 2022 and 2021.

13. Subsequent events:

Management evaluated subsequent events through January 26, 2023, the date the financial statements were available to be issued.

THE LITERACY LAB

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JULY 31, 2022
(See independent auditor's report)

Federal grantor/pass-through grantor program title	Federal ALN number	Pass-through grantors number	Federal expenditures
<u>Corporation for National and Community Services:</u>			
2021 AmeriCorps National Direct Grant	94.006	N/A	\$ 1,826,410
2021 AmeriCorps National Direct Grant - ARP Match Replacement	94.006	N/A	511,590
Passed Through Serve DC:			
DC Reading Corps	94.006	N/A	287,164
DC Reading Corps - ARP Match Replacement	94.006	N/A	135,537
Passed Through the Virginia Department of Social Services:			
VA Reading Corps	94.006	N/A	798,710
VA Reading Corps - ARP Match Replacement	94.006	N/A	181,290
Passed Through the Missouri Community Service Foundation:			
MO Reading Corps	94.006	N/A	531,720
MO Reading Corps - ARP Match Replacement	94.006	N/A	128,674
Passed Through the Maryland Governor's Office on Service and Volunteerism:			
MD Reading Corps	94.006	N/A	340,300
MD Reading Corps - ARP Match Replacement	94.006	N/A	107,700
Passed Through the Massachusetts Service Alliance:			
MA Reading Corps	94.006	N/A	560,201
MA Reading Corps - ARP Match Replacement	94.006	N/A	189,882
Passed Through Serve CO:			
CO Reading Corps - Planning Grant	94.006	N/A	<u>46,101</u>
Total Corporation for National and Community Services			<u>5,645,279</u>
<u>U.S. Department of Treasury:</u>			
Passed Through the District of Columbia: Learn 24 - High Impact Tutoring Grant	21.027	N/A	<u>750,000</u>
Total U.S. Department of Treasury			<u>750,000</u>
<u>U.S. Department of Health and Human Services:</u>			
Passed Through the Wisconsin Department of Children and Families: Preschool Development Grant Birth to Five	93.434	N/A	<u>150,000</u>
Total U.S. Department of Health and Human Services			<u>150,000</u>
Total federal awards			<u>\$ 6,545,279</u>

THE LITERACY LAB

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JULY 31, 2022

(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 de minimis indirect cost rate.



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*

Independent Auditor's Report

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, 2022 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 26, 2023.

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) as a basis for designing 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 Steindler & Fritz

Camp Hill, Pennsylvania
January 26, 2023

Report on Compliance for Each Major Federal Program and Report on
Internal Control Over Compliance in Accordance with the Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

Opinion on Each Major Federal Program

We have audited The Literacy Lab's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of The Literacy Lab's major federal programs for the year ended July 31, 2022. The Literacy Lab's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, The Literacy Lab complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended July 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of The Literacy Lab and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of The Literacy Lab's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to The Literacy Lab's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The Literacy Lab's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance; and therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about The Literacy Lab's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding The Literacy Lab's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of The Literacy Lab's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 The Literacy Lab's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Brown Schultz Steidman & Fritz

Camp Hill, Pennsylvania
January 26, 2023

THE LITERACY LAB

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JULY 31, 2022

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 no

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

Noncompliance material to financial statements noted? yes no

Federal awards

Internal control over major programs:

Material weakness(es) identified? yes no

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

Type of 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 no

Identification of major program:

<u>Federal ALN number(s)</u>	<u>Name of federal program or cluster</u>
94.006	AmeriCorps
21.027	Learn 24 - High Impact Tutoring Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

(continued)

THE LITERACY LAB

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JULY 31, 2022

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, 2022

There were no prior audit findings reported.