

THE LITERACY LAB

**Financial Statements Together with
Report of Independent Public Accountants**

For the Years Ended July 31, 2024 and 2023

THE LITERACY LAB

Financial Statements Together with Report of Independent Public Accountants

JULY 31, 2024 AND 2023

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
The Literacy Lab

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Literacy Lab (the Organization), which comprise the statements of financial position as of July 31, 2024 and 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of July 31, 2024 and 2023, 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). 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation and maintenance of internal controls 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 that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance; and therefore, is not a guarantee that an audit conducted in accordance with GAAS 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 controls. 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, 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 controls 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 controls. 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 within one year after the date that the financial statements are available to be issued.

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 controls-related matters that we identified during the audit.

Washington, D.C.
April 29, 2025

SBC & Company, LLC

THE LITERACY LAB

Statements of Financial Position As of July 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,434,390	\$ 12,512,959
Accounts receivable, net of allowance	274,470	440,673
Grants receivable	5,583,291	4,867,881
Contributions receivable, net	1,481,473	1,999,551
Prepaid expenses	458,611	436,365
Total Current Assets	<u>13,232,235</u>	<u>20,257,429</u>
Right of use asset - operating	1,269,950	1,480,886
Property and equipment, net	31,992	47,349
Other assets, security deposits	38,786	37,786
Total Assets	<u><u>\$ 14,572,963</u></u>	<u><u>\$ 21,823,450</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 183,691	\$ 162,050
Accrued payroll and payroll liabilities	548,701	527,517
Deferred revenue	48,091	-
Lease liability - operating	271,199	247,192
Total Current Liabilities	<u>1,051,682</u>	<u>936,759</u>
Lease liability - operating, net of current portion	1,077,220	1,309,820
Total Liabilities	<u>2,128,902</u>	<u>2,246,579</u>
Net Assets Without Donor Restrictions		
Undesignated	10,529,931	16,337,116
Board designated	76,005	76,005
Total Net Assets Without Donor Restrictions	<u>10,605,936</u>	<u>16,413,121</u>
Net Assets With Donor Restrictions	<u>1,838,125</u>	<u>3,163,750</u>
Total Net Assets	<u>12,444,061</u>	<u>19,576,871</u>
Total Liabilities and Net Assets	<u><u>\$ 14,572,963</u></u>	<u><u>\$ 21,823,450</u></u>

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

THE LITERACY LAB

Statements of Activities and Changes in Net Assets For the Years Ended July 31, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support						
Federal government grants	\$ 6,386,597	\$ -	\$ 6,386,597	\$ 6,655,754	\$ -	\$ 6,655,754
Local government grants	2,222,506	-	2,222,506	2,910,233	-	2,910,233
Contributions and other grants	798,899	2,882,475	3,681,374	1,549,166	2,536,540	4,085,706
Program service fees, tutoring	2,012,241	-	2,012,241	2,705,623	-	2,705,623
Donated services - in-kind services	16,741	-	16,741	110,307	-	110,307
Interest and other income	226,636	-	226,636	143,882	-	143,882
Net assets released from restrictions	4,208,100	(4,208,100)	-	3,681,790	(3,681,790)	-
Total Revenues and Other Support	15,871,720	(1,325,625)	14,546,095	17,756,755	(1,145,250)	16,611,505
Expenses						
Program services	18,173,143	-	18,173,143	16,265,565	-	16,265,565
Management and general	1,732,859	-	1,732,859	2,352,484	-	2,352,484
Fundraising	1,772,903	-	1,772,903	1,157,671	-	1,157,671
Total Expenses	21,678,905	-	21,678,905	19,775,720	-	19,775,720
Changes in net assets	(5,807,185)	(1,325,625)	(7,132,810)	(2,018,965)	(1,145,250)	(3,164,215)
Net assets, beginning of year	16,413,121	3,163,750	19,576,871	18,432,086	4,309,000	22,741,086
Net Assets, End of Year	\$ 10,605,936	\$ 1,838,125	\$ 12,444,061	\$ 16,413,121	\$ 3,163,750	\$ 19,576,871

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

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Statement of Functional Expenses For the Year Ended July 31, 2024

	Program Services			Supporting Services		
	Leading Men Fellowship	Reading Corps	Total Program Services	Management and General	Fundraising	Total
Payroll Expenses						
Staff salaries	\$ 5,859,280	\$ 6,788,918	\$ 12,648,198	\$ 783,027	\$ 826,143	\$ 14,257,368
Education awards	184,530	-	184,530	-	-	184,530
Health insurance	367,889	749,838	1,117,727	96,821	106,777	1,321,325
Taxes and other benefits	401,624	625,754	1,027,378	117,881	116,569	1,261,828
Total payroll expenses	6,813,323	8,164,510	14,977,833	997,729	1,049,489	17,025,051
Direct Program Expenses						
Training costs	498,705	51,755	550,460	1,247	-	551,707
Program supplies	199,275	134,034	333,309	1,610	-	334,919
AMPACT	-	121,862	121,862	-	-	121,862
Regional discretionary	1,395	2,395	3,790	1,399	-	5,189
Recruitment expenses	17,204	33,240	50,444	3,537	-	53,981
Security background checks	8,055	12,153	20,208	552	-	20,760
Total direct program expenses	724,634	355,439	1,080,073	8,345	-	1,088,418
General and Administrative Expenses						
Staff development & training	17,454	27,920	45,374	41,591	479	87,444
Technology - hardware	2,542	42	2,584	25,947	-	28,531
Technology - software	4,254	18,433	22,687	129,441	3,904	156,032
Special events - other	20,678	-	20,678	1,676	-	22,354
Telecommunications - office	215	1,269	1,484	9,630	-	11,114
Telecommunications - mobile	66	165	231	20,026	-	20,257
Advertising & advancement	13,379	24,966	38,345	3,141	1,154	42,640
Audit	17,708	27,486	45,194	5,594	5,140	55,928
Accounting	97,106	150,728	247,834	31,665	28,184	307,683
Legal	7,673	11,909	-	2,574	2,227	4,801
Consulting	198,273	185,974	384,247	151,400	648,657	1,184,304
Corporate insurance	30,023	46,602	76,625	7,974	8,715	93,314
Food & beverage	47,376	28,955	76,331	6,793	2,456	85,580
Licenses, fees, taxes (non-payroll)	10,504	34,044	44,548	2,799	1,934	49,281
Supplies & equipment	56,333	21,046	77,379	6,688	3,041	87,108
Postage and delivery	6,088	3,512	9,600	4,049	772	14,421
Printing	9,927	2,173	12,100	1,853	359	14,312
Professional development	1,680	-	1,680	-	-	1,680
Rent	85,523	134,508	220,031	244,536	-	464,567
Travel	134,390	80,740	215,130	10,748	14,933	240,811
Staff retreat and events	475	135	610	109	25	744
Depreciation	4,942	7,671	12,613	1,310	1,434	15,357
Bad debt expense	7,944	532,106	540,050	-	-	540,050
Donated services and materials (in-kind)	-	-	-	16,741	-	16,741
Other miscellaneous expense	-	300	300	500	-	800
Total other general and administrative expenses	774,553	1,340,684	2,115,237	726,785	723,414	3,565,436
Total Expenses	\$ 8,312,510	\$ 9,860,633	\$ 18,173,143	\$ 1,732,859	\$ 1,772,903	\$ 21,678,905

The accompanying notes are an integral part of this financial statement.

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Statement of Functional Expenses (continued) For the Year Ended July 31, 2023

	Program Services				Supporting Services		
	Leading Men Fellowship	Reading Corps	Math Corps	Total Program Services	Management and General	Fundraising	Total
Payroll Expenses							
Staff salaries	\$ 4,219,217	\$ 7,206,888	\$ 145,972	\$ 11,572,077	\$ 1,587,994	\$ 531,334	\$ 13,691,405
Education awards	157,500	-	-	157,500	-	-	157,500
Health insurance	254,203	692,373	30,284	976,860	60,754	40,490	1,078,104
Taxes and other benefits	368,284	654,157	43,865	1,066,306	68,164	56,485	1,190,955
Total payroll expenses	4,999,204	8,553,418	220,121	13,772,743	1,716,912	628,309	16,117,964
Direct Program Expenses							
Training costs	219,726	205,232	86	425,044	-	-	425,044
Program supplies	239,454	122,905	40	362,399	-	-	362,399
AMPACT	-	201,890	-	201,890	-	-	201,890
Regional discretionary	26,643	41,913	375	68,930	-	-	68,930
Recruitment expenses	23,947	84,830	-	108,776	-	-	108,776
Security background checks	8,764	14,744	-	23,508	-	-	23,508
Program income expenditures	-	37,500	-	37,500	-	-	37,500
Total direct program expenses	518,533	709,013	501	1,228,047	-	-	1,228,047
General and Administrative Expenses							
Staff development & training	6,760	12,833	-	19,593	36,171	115	55,879
Technology - hardware	21,600	4,797	-	26,397	47,533	-	73,930
Technology - software	2,141	8,699	-	10,840	69,618	6,735	87,193
Special events - other	870	-	-	870	11,217	-	12,087
Telecommunications - office	1,176	5,857	-	7,033	30,483	113	37,629
Telecommunications - mobile	80	196	-	276	10,949	46	11,271
Advertising & advancement	12,737	18,484	796	32,017	2,067	2,068	36,152
Audit	-	-	-	-	22,736	-	22,736
Accounting	-	-	-	-	108,615	-	108,615
Consulting	123,999	197,173	8,247	329,419	16,048	491,784	837,251
Corporate insurance	16,086	26,642	2,038	44,766	14,452	5,296	64,514
Food & beverage	52,904	22,807	354	76,065	699	818	77,582
Licenses, fees, taxes (non-payroll)	9,613	39,974	1,183	50,770	2,861	6,415	60,046
Supplies & equipment	29,739	36,739	846	67,324	34,419	2,709	104,452
Postage and delivery	2,189	4,849	149	7,187	386	520	8,093
Printing	1,461	2,763	47	4,271	315	1,001	5,587
Professional development	451	1,474	57	1,982	149	149	2,280
Rent	44,822	300,564	-	345,386	61,559	-	406,945
Travel	102,545	74,447	1,303	178,295	3,487	6,968	188,750
Staff retreat and events	9,281	24,360	1,116	34,757	2,188	2,419	39,364
Depreciation	6,701	17,727	849	25,277	2,206	2,206	29,689
Bad debt expense	-	-	-	-	49,357	-	49,357
Donated services and materials (in-kind)	2,250	-	-	2,250	108,057	-	110,307
Total other general and administrative expenses	447,405	800,385	16,985	1,264,775	635,572	529,362	2,429,709
Total Expenses	\$ 5,965,142	\$ 10,062,816	\$ 237,607	\$ 16,265,565	\$ 2,352,484	\$ 1,157,671	\$ 19,775,720

The accompanying notes are an integral part of this financial statement.

THE LITERACY LAB

Statements of Cash Flows For the Years Ended July 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (7,132,810)	\$ (3,164,215)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	15,357	29,689
Right of use asset amortization, less lease payments	2,343	28,509
Effect of changes in non-cash operating assets and liabilities:		
Accounts receivable, net	166,203	540,032
Grants receivable	(715,410)	(2,516,434)
Contributions receivable	518,078	6,912,115
Prepaid expenses	(22,246)	(138,876)
Security deposits	(1,000)	(7,909)
Accounts payable and accrued expenses	21,641	5,308
Accrued payroll and payroll liabilities	21,184	139,184
Deferred revenue	48,091	-
Net Cash from Operating Activities	<u>54,241</u>	<u>4,991,618</u>
Net Change in Cash and Cash Equivalents	(7,078,569)	1,827,403
Cash and Cash Equivalents, Beginning of Year	<u>12,512,959</u>	<u>10,685,556</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,434,390</u>	<u>\$ 12,512,959</u>

THE LITERACY LAB

Notes to the Financial Statements For the Year Ended July 31, 2024 and 2023

1. ORGANIZATION

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 2024, the Organization served over 4,004 children in Washington, D.C.; Central Virginia; Baltimore, MD; Kansas City, MO; Springfield, MA; Milwaukee, WI; Atlanta, GA; Phoenix, AZ; and Cincinnati, OH. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting and have been prepared in accordance with accounting principles generally accepted in the United States of America.

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 and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investment funds, which have a maturity of 90 days or less. Cash equivalents as of July 31, 2024 and 2023, consisted of money market funds.

THE LITERACY LAB

Notes to the Financial Statements For the Year Ended July 31, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Receivables represent revenue earned but not collected as of the end of the fiscal year for services provided. The Organization provides an allowance for credit losses equal to the estimated uncollectible accounts. The Organization's estimate is based on historical collection experience and a review of the current status of specific accounts receivable. The allowance for credit losses as of July 31, 2024 and 2023, was \$115,020 and \$105,020, respectively.

Contributions and Grants Receivable

Contributions and grants are recognized when the donor makes an unconditional promise to give to the Organization. In accordance with the generally accepted accounting principles in the United States of America, promises to give to be received greater than one year are discounted to their net present value at the time the revenue is recorded. The Organization's promises to give that are expected to be collected greater than a year were discounted at a rate of 4.73% and 4.92%, as of July 31, 2024 and 2023, respectively, using the average of the 4-year U.S. Treasury Bond rate and the rate of inflation. The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. As of July 31, 2024 and 2023, there was no allowance for doubtful accounts, as management deemed them fully collectable.

Property and Equipment

Equipment valued in excess of \$1,000 or \$5,000 in bulk is capitalized and recorded at cost, if purchased, or estimated fair value at the date of gift, if donated. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets ranging from three to seven years for furniture, website and database, and equipment.

Right of Use Asset and Lease Liability

The Organization records a right of use asset related to the office building where the Organization conducts its operations. The right of use asset is being amortized over the term of the lease. As of July 31, 2024 and 2023, the carrying value of the right of use asset was \$1,269,950 and \$1,480,886, respectively.

The lease liability represents the discounted future commitments for the Organization's office building lease. The term of a lease is assessed as the non-cancellable period of the lease, plus any extension options that the Organization is reasonably certain to exercise. The lease liability is discounted using the Organization's estimated borrowing rate of 2.64% based on the risk-free rate.

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Notes to the Financial Statements For the Year Ended July 31, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

Net assets without donor restrictions are assets and contributions that are not restricted by donors or for which restrictions have expired. The board may earmark net assets without donor restrictions for future program expenses, purchase of fixed assets or other uses.

Net assets with donor restrictions are those whose uses by the Organization have been limited by donors primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restriction. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as net assets without donor restrictions.

Grants and Contributions

The Organization recognizes grants and contributions when cash, securities or other assets, or an unconditional promise to give is received. Grant revenues from foundation grants and contributions are recognized as increases in unrestricted net assets unless the use of the related assets is limited by donor restrictions. When a donor restriction is met, it is reported as net assets without donor restrictions. Revenue from other government sources, including federal entitlements and grants, is recognized as allowable expenses are incurred. Funding received in advance of the fiscal year is recorded as deferred revenue in the accompanying statements of financial position. It is considered earned once related expenses are incurred.

The Organization reviews contracts at inception to determine if they represent a single performance obligation or multiple performance obligations. The Organization's contracts contain a single performance obligation and revenue is recognized at the point in time the service obligation is met.

Donated Services and Materials (In-Kind)

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. In-kind contributions for space 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.

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Notes to the Financial Statements For the Year Ended July 31, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services and Materials (In-Kind) (continued)

For the year ended July 31, 2024, the professional services fees relate to legal fees and were calculated at \$16,471 using actual hours worked multiplied by the attorneys' hourly rates. For the year ended July 31, 2023, the determination of fair value for space was calculated as \$29,408 using the square footage times the estimated rate for the area. The professional services fees relate to legal fees and were calculated at \$80,899 using actual hours worked multiplied by the attorneys' hourly rates.

Volunteers who donated their time to the Organization by serving on advisory and planning committees is not assigned value as of July 31, 2024 and 2023, and is not reported in the accompanying 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 \$42,639 and \$36,150, were incurred during the years ended July 31, 2024 and 2023, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and in the statements of functional expenses. Salaries and benefits are charged to programs based on time and effort. All other expenses are charged directly to program services, general and administrative, and fundraising based on specific identification, when determinable. Shared costs have been allocated among the program and supporting services that benefit from those costs based on the percentage of direct salaries and benefits.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Organization performed an evaluation of uncertain tax positions as of July 31, 2024 and 2023, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status.

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Notes to the Financial Statements For the Year Ended July 31, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

As of July 31, 2024, the statute of limitations for fiscal years 2021 through 2024 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization would be required to file tax returns.

Available Resources and Liquidity

The following table reflects the Organization's financial assets as of July 31, 2024 and 2023, reduced by amounts that are not available to meet general expenditures within the next year:

	2024	2023
Financial Assets		
Cash and cash equivalents	\$ 5,434,390	\$ 12,512,959
Accounts receivable, net	274,470	440,673
Grants receivable	5,583,291	4,867,881
Contributions receivable, net	1,481,473	1,999,551
Total Financial Assets at Year End	12,773,624	19,821,064
Less Amounts Not Available to be Used Within One Year:		
Net assets with donor restrictions	1,838,125	3,163,750
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 10,935,499	\$ 16,657,314

The Organization receives contributions from donors which may or may not be restricted for specific purposes. Financial assets of the Organization are primarily comprised of cash, accounts receivable, grants receivable, and contributions receivable from donors. The Organization structures its financial assets to be available as general expenditure liabilities and other obligations come due.

Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses. The objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. This standard was implemented by the Organization and effective for the year ended July 31, 2024, and did not have a significant impact on the financial statements.

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Notes to the Financial Statements For the Year Ended July 31, 2024 and 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification

Certain 2023 amounts have been reclassified to conform with 2024 presentation.

Subsequent Events

The Organization's management evaluated the accompanying financial statements for subsequent events and transactions through April 29, 2025, the date the financial statements were available for issue, and has determined that, no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give primarily reflect pledges and other contributions made to the Organization, and were due as follows as of July 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Within one year	\$ 994,920	\$ 872,847
One to four years	<u>509,558</u>	<u>1,259,375</u>
Unconditional promises to give	1,504,478	2,132,222
Less: discount to net present value	<u>23,005</u>	<u>132,671</u>
Contributions Receivable, Net	<u><u>\$ 1,481,473</u></u>	<u><u>\$ 1,999,551</u></u>

4. PROPERTY AND EQUIPMENT

As of July 31, 2024 and 2023, property and equipment consisted of the following:

	<u>2024</u>	<u>2023</u>	<u>Estimated Useful Life</u>
Website and database	\$ 155,652	\$ 155,652	3 Years
Computers	1,048	1,048	3 Years
Office furniture	<u>107,497</u>	<u>107,497</u>	7 Years
Total Cost	264,197	264,197	
Less: accumulated depreciation	<u>232,205</u>	<u>216,848</u>	
Total Property and Equipment, Net	<u><u>\$ 31,992</u></u>	<u><u>\$ 47,349</u></u>	

Depreciation expense was \$15,357 and \$29,689, for the years ended July 31, 2024 and 2023, respectively.

THE LITERACY LAB

Notes to the Financial Statements For the Year Ended July 31, 2024 and 2023

5. LEASE LIABILITIES

Operating Sublease – 1400 16th Street, NW (Washington, D.C.)

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, D.C. The lease term commenced on August 17, 2019, with a five-year initial term and has a five-year renewal option. 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 commenced 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.

Total rent expense for each of the years ended July 31, 2024 and 2023, was \$464,567 and \$406,945, respectively. The recorded difference between the GAAP straight-line rent expense and the required lease payments is reflected net in the right of use operating assets on the accompanying statements of financial position in the amount of \$78,469 and \$76,126, as of July 31, 2024 and 2023, respectively.

The following is a schedule of future minimum payments, required under the above operating lease for the remaining lease term as of July 31, 2024:

<u>Years Ending July 31,</u>	<u>Amount</u>
2025	\$ 271,199
2026	259,706
2027	266,199
2028	272,854
2029	279,675
Years thereafter	101,277
Net Minimum Lease Payments	1,450,910
Less: amount representing interest	102,491
Total	<u>\$ 1,348,419</u>

6. NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED

Net assets without donor restrictions that have been board designated as of July 31, 2024 and 2023, were \$76,005, for the Johnson Dillon Fund for both years. 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 the Financial Statements For the Year Ended July 31, 2024 and 2023

7. 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, 2024 and 2023, were available for the following:

	<u>2024</u>	<u>2023</u>
Purpose restricted:		
Program services:		
Reading Corps	\$ 10,000	\$ 1,181,500
Leading Men Fellowship	1,435,625	1,722,250
Total purpose restricted	<u>1,445,625</u>	<u>2,903,750</u>
Time restricted	<u>392,500</u>	<u>260,000</u>
Total net assets with donor restrictions	<u>\$ 1,838,125</u>	<u>\$ 3,163,750</u>

8. NET ASSETS 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, 2024 and 2023, the Organization expended funds from net assets with donor restrictions as follows:

	<u>2024</u>	<u>2023</u>
Purpose restriction incurred:		
Program services:		
Reading Corps	\$ 1,456,959	\$ 2,160,333
Leading Men Fellowship	1,813,642	1,246,457
Lobbying	<u>500,000</u>	<u>-</u>
Total released for purpose restrictions	<u>3,770,600</u>	<u>3,406,790</u>
Time restriction expired	<u>437,500</u>	<u>275,000</u>
Total net assets released from restrictions	<u>\$ 4,208,100</u>	<u>\$ 3,681,790</u>

9. CONTINGENCIES

Federal Grants

Certain grant expenses in the financial statements are subject to audit by the grantor, and to the extent an audit determines any expenses were disallowed, the amount is subject to refund to the grantor. Management does not believe any refund, if required, would be material to the financial statements as of July 31, 2024 and 2023.