THE LITERACY LAB

WASHINGTON, D.C.

AUDIT REPORT

FOR THE SEVEN-MONTH PERIOD ENDED JULY 31, 2016

KENDALL, PREBOLA AND JONES
Certified Public Accountants
PO BOX 259
BEDFORD, PENNSYLVANIA 15522-0259
(814) 623-1880
FAX (814) 623-7548

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Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Directors
The Literacy Lab
1003 K Street, NW, Suite 500
Washington, DC 20001

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Literacy Lab (a nonprofit organization), which comprise the statements of financial position as of July 31, 2016, and the related statements of activities and cash flows for the seven-month-period 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity'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 entity'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.

133 MANN STREET, PO BOX 259, BEDFORD, PA 15522-0259 / (814) 623-1880

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Literacy Lab as of July 31, 2016, and the changes in its net assets and its cash flows for the seven-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Kendall, Prebola and Jones

Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
December 15, 2016

THE LITERACY LAB
STATEMENT OF FINANCIAL POSITION
JULY 31, 2016

ASSETS

Current Assets:	
Cash and Cash Equivalents	$ 1,220,853
Accounts Receivable	78,891
Grants Receivable	489,864
Contributions Receivable	77,000
Prepaid Expenses	13,616
Total Current Assets	$ 1,880,224
Fixed Assets - Net	$ 32,769
Other Assets:	
Deposits	$ 8,643
Total Other Assets	$ 8,643
TOTAL ASSETS	$ 1,921,636

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable and Accrued Expenses	$ 101,535
Accrued Payroll and Payroll Liabilities	104,779
Deferred Revenue	45,986
Deferred Rent	3,618
Total Current Liabilities	$ 255,918
Total Liabilities	$ 255,918
Net Assets:	
Unrestricted	$ 1,474,543
Temporarily Restricted	191,175
Total Net Assets	$ 1,665,718
TOTAL LIABILITIES AND NET ASSETS	$ 1,921,636

(See Accompanying Notes and Auditor’s Report)

THE LITERACY LAB
STATEMENT OF ACTIVITIES
FOR THE SEVEN-MONTH PERIOD ENDED JULY 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Grants - Government	$ 1,205,233	$ -	$ 1,205,233
Grants and Contributions	111,371	299,260	410,631
Program Service Fees - Tutoring	827,347	-	827,347
Donations - In-kind	14,245	-	14,245
Interest and Other Income	1,228	-	1,228
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	349,558	(349,558)	-
Total Revenues, Gains and Other Support	$ 2,508,982	$ (50,298)	$ 2,458,684
Expenses:			
Program Services	$ 2,242,415	$ -	$ 2,242,415
General and Administrative	66,618	-	66,618
Fundraising	69,438	-	69,438
Total Expenses	$ 2,378,471	$ -	$ 2,378,471
Changes in Net Assets	$ 130,511	$ (50,298)	$ 80,213
Net Assets, Beginning of Period	1,344,032	241,473	1,585,505
Net Assets, End of Period	$ 1,474,543	$ 191,175	$ 1,665,718

(See Accompanying Notes and Auditor's Report)

THE LITERACY LAB
STATEMENT OF CASH FLOWS
FOR THE SEVEN-MONTH PERIOD ENDED JULY 31, 2016

Cash Flows from Operating Activities:	
Changes in Net Assets	$ 80,213
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:	
Depreciation and Amortization	3,732
Changes in Assets and Liabilities:	
Accounts Receivable - (Increase)/Decrease	116,470
Grants Receivable - (Increase)/Decrease	(67,071)
Promises Receivable - (Increase)/Decrease	116,854
Prepaid Expenses - (Increase)/Decrease	13,262
Deposits - (Increase)/Decrease	(7)
Accounts Payable - Increase/(Decrease)	59,902
Accrued Payroll and Payroll Liabilities - Increase/(Decrease)	(35,768)
Deferred Revenue - Increase/(Decrease)	33,596
Deferred Rent - Increase/(Decrease)	(1,614)
Net Cash Flows from Operating Activities	$ 319,569
Cash Flows from Investing Activities:	
Purchase of Fixed Assets	$ (17,211)
Net Cash Flows from Investing Activities	$ (17,211)
Net Increase in Cash and Cash Equivalents	$ 302,358
Cash and Cash Equivalents, Beginning of Period	918,495
Cash and Cash Equivalents, End of Period	$ 1,220,853

Supplemental Disclosures:

a) No interest was paid during the seven-month period ended July 31, 2016.
b) No income taxes were paid during the seven-month period ended July 31, 2016.

(See Accompanying Notes and Auditor’s Report)

1. ORGANIZATION:

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

Basic Programs:

The Literacy Lab places full-time tutors in high-needs schools to provide one-on-one literacy intervention to children from age 3 to grade 3. In 2016, the Organization served over 2,500 children in Washington, DC, Alexandria, VA, Baltimore, MD, and Kansas City, MO. 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:

The significant accounting policies of Organization are summarized below:

(a) Accounting Method:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

Contributions

The Organization has adopted Financial Accounting Standards Board ASC No. 958-605-25, *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

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

Foundation Grants

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. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restrictions between the applicable classes of net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

Government Grants

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

Cash receipts in excess of costs incurred for grants are reflected as refundable advances until they are expended for the purpose of the grant, at which time they are recognized as unrestricted support. Costs incurred in excess of cash received are reflected as grants receivable.

Program Service Fee Revenues

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. Deferred program revenues at July 31, 2016, were $45,986.

(c) Accounts, Grants and Contributions Receivable:

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 related 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. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no provision for bad debt expense as of July 31, 2016, as management expects that all balances currently due are collectible.

Receivables related to program service fees (i.e. tutoring) are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(c) Accounts, Grants and Contributions Receivable: (Continued)

Accounts and Grants Receivable (Continued)

Balances of accounts and grants receivable at July 31, 2016, consisted of the following:

Program Services	$ 78,891
Government Grants	489,864
Total Accounts and Grants Receivable	$ 568,755

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. Contributions receivable amounted to $77,000 as of July 31, 2016.

(d) Corporate Taxes:

The Organization is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state tax laws. Accordingly, no income taxes have been provided for in the accompanying financial statements. The Organization is not a private foundation and contributions to the Organization qualify as a charitable tax deduction by the contributor.

(e) Net Assets:

The Organization has adopted Financial Accounting Standards Board ASC No. 958-205-05, *Financial Statements of Not-for-profit Organizations.* Under FASB ASC No. 958-205-05, the Organization is required to report information regarding its financial position and activities according to three classes of net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control. This classification includes net assets subject to donor imposed conditions, which have been met in the current period, and net assets subject to donor imposed restrictions that have been released from restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Temporarily Restricted Net Assets

Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted net assets were available at July 31, 2016, for the following programs:

Program Services - Purpose Restricted	
Reading Corps	$ 149,940
Total Purpose Restricted	$ 149,940
Time Restricted	$ 41,235
Total Available	$ 191,175

Net assets were released during the year from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors:

Program Services - Purpose Restricted	
Reading Corps	$ 308,891
Ready to Read	1,276
IT Infrastructure Upgrades	20,626
Communications and Marketing	18,765
Total Released From Restrictions	$ 349,558

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Organization did not have any permanently restricted net assets as of July 31, 2016.

(f) Donated Services and Materials:

Donated services and materials are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(f) Donated Services and Materials:

Contributed services and promises to give services that do not meet the above criteria are not recognized. In-kind contributions for space, supplies, and professional services are recorded in the Statement of Activities at estimated 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.

The estimated value of donated services and materials has been recorded in the financial statements as follows:

Accounting Services	$ 14,245
Total Donations in Kind	$ 14,245

A number of volunteers donated their time to the Literacy Lab by serving on advisory and planning committees. No value has been assigned for those services. The time contributed by the members of the Literacy Lab's Board of Directors is uncompensated and is not reflected as donated services.

(g) Functional Expense Allocation Policies and Procedures:

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

(h) Use of Estimates:

The preparation of financial statements in conformity 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.

(i) Fair Value of Certain Financial Instruments:

Some of the Organization's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, promises receivable, prepaid expenses, accounts payable, deferred revenues, and accrued expenses.

3. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

The Organization is exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). There was no unrelated business income for the seven-month period ended July 31, 2016. The Organization performed an evaluation of uncertain tax positions for the seven-month period ended July 31, 2016, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of July 31, 2016, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of July 31, 2016, the Organization had no accruals for interest and/or penalties.

4. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of July 31, 2016, totaled $1,220,853. For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with maturities of three months or less. Certificates of Deposit with original maturities in excess of three months are considered to be investments. The Organization did not have any Certificates of Deposit as of July 31, 2016

As of July 31, 2016, $995,215 of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increased cash flows at certain times during the seven-month period, the amount of funds at risk may have been greater than at period end. The Organization is at risk for the funds held in excess of the insured amounts, but has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

5. FIXED ASSETS:

Fixed assets are recorded at cost. Contributed assets are recorded at fair value. If an expenditure in excess of $5,000 results in an asset having an estimated useful life, which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful life of the asset. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. Depreciation expense for the seven-month period ended July 31, 2016, was $3,732. Maintenance and repairs are charged to expenses as incurred. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period.

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

July 31, 2016

	Cost	Accumulated Depreciation	Net Book Value	Depreciable Life
Website and Database	$ 35,656	$ 3,529	$ 32,127	3 Years
Computers	5,705	5,063	642	3 Years
Totals	$ 41,361	$ 8,592	$ 32,769	

6. COMMITMENTS:

Operating Lease - K Street (Washington, DC):

The Organization entered into a lease agreement on December 1, 2015, for the rent of office space located at 1003 K Street NW, Washington, DC. The lease term commenced on December 1, 2015, and expires on May 31, 2017. Monthly base rent payments of $5,463 began on December 1, 2015, which will then change to $5,681 per month on December 1, 2016. As a requirement of this lease, a security deposit in the amount of $5,463 was required to be made. The Organization received one month of free rent. Accounting principles generally accepted in the United States of America require that rent expense, pursuant to a non-cancelable lease that includes scheduled rent increases, be recorded on a straight-line basis over the term of the lease. Accordingly, $3,618 of future rent payments have been recorded as a current liability to adjust the actual rent paid to conform to the straight-line basis. Rental expense related to this lease, for the seven-month period ended July 31, 2016, was $36,626.

As of July 31, 2016, future minimum rental obligations required under this lease, net of deferred rent, are as follows:

Year Ending July 31,	Rent Obligation	Deferred Rent	Net Obligation
2017	$ 55,941	$ (3,618)	$ 52,323
Total	$ 55,941	$ (3,618)	$ 52,323

Operating Sublease - Pennsylvania Avenue (Kansas City, MO):

The Organization entered into a sublease agreement with Turn the Page for the rental of office space at 4049 Pennsylvania Avenue, Kansas City, MO. This lease is effective for a period of thirty-six (36) months beginning on January 1, 2016, and expiring on December 31, 2018. Monthly base rent under this lease is $800 from January 1, 2016, through December 31, 2016, and increases to $883 for January 1, 2017, through December 31, 2017, and $967 for January 1, 2018 through December 31, 2018. The Organization agrees to pay an additional $50 per month for the Organization's number of employees occupying this space that exceeds two (2). The future rental obligations schedule below includes four (4) employees occupying this space, resulting in $100 additional rent per month. 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 seven-month period ended July 31, 2016, was $5,900.

As of July 31, 2016, future minimum rental obligations required under this lease are as follows:

Year Ending July 31,	Rent Obligation
2017	$ 11,381
2018	12,384
2019	5,335
Total	$ 29,100

6. COMMITMENTS: (Continued)

License Agreement - 1500 Union Avenue, Baltimore, MD:

The Organization entered into a license agreement with New Leaders, Inc., on June 24, 2016, for the rental of certain office space located at 1500 Union Avenue, Baltimore, MD. This license agreement calls for twelve (12) monthly payments of $655, commencing on July 15, 2016. As a requirement of this license agreement, a security deposit in the amount of $655 was made. Rental expense for the seven-month period ending July 31, 2016, was $655

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

The Organization entered into a membership agreement with Gather, LLC on June 12, 2016, for the rental of certain office space located at 2920 W. Broad St., Richmond, VA. This membership agreement calls for twelve (12) monthly payments of $725, commencing on August 15, 2016. As a requirement of this membership agreement, a security deposit in the amount of $725 was made.

7. CONCENTRATIONS:

Based on the nature and purpose of the Literacy Lab, sixty-six (66%) of total support was attributable to grants and contributions. Concentrations with respect to grants and contributions are limited due to the large number of contributions comprising the Organization's contributor base and their dispersion across different industries and donor backgrounds.

8. SUBSEQUENT EVENTS:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 15, 2016, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts represented in the accompanying financial statements.

9. RELATED PARTY TRANSACTIONS:

Various board members and family members of board members of The Literacy Lab gave contributions to the Organization during the seven-month period ended July 31, 2016.

10. FUNDRAISING:

Expenses in the amount of $69,438 were incurred for the purpose of fundraising during the seven-month period ended July 31, 2016.

11. 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 $5,950 were incurred during the seven-month period ended July 31, 2016.

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. There is no unfunded past service liability. Therefore, there was no expense for the seven-month period ended July 31, 2016.

THE LITERACY LAB
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE SEVEN-MONTH PERIOD ENDED JULY 31, 2016

	Total	Program	General and Administrative	Fundraising
Salaries	$ 1,571,945	$ 1,513,102	$ 26,934	$ 31,909
Fringe Benefits and Payroll Taxes	224,267	215,653	6,146	2,468
Educational Tutoring	233,337	233,337	-	-
Program Expense and Supplies	114,319	114,319	-	-
Rent	49,901	6,216	43,685	-
Travel	20,621	19,409	1,212	-
Meetings	9,462	9,462	-	-
Professional Development	4,810	250	4,560	-
Consulting	55,068	-	22,568	32,500
Accounting and Audit	40,580	-	40,580	-
Advertising and Marketing	5,950	4,325	1,345	280
Office Expense	29,439	1,144	28,029	266
Postage and Shipping	481	-	481	-
Telephone and Internet	6,707	-	6,707	-
License and Fees	5,398	1,524	3,693	181
Insurance	2,454	-	2,454	-
Depreciation	3,732	-	3,732	-
Total Direct Expense	$ 2,378,471	$ 2,118,741	$ 192,126	$ 67,604
Indirect Expense	-	123,674	(125,508)	1,834
Total Expense	$ 2,378,471	$ 2,242,415	$ 66,618	$ 69,438

(See Accompanying Notes and Auditor's Report)