CHILDREN'S LITERACY INITIATIVE

FINANCIAL STATEMENTS

WITH REPORTING REQUIREMENTS FOR
UNIFORM GUIDANCE

JUNE 30, 2019 AND 2018
(with supplementary information)

CHILDREN'S LITERACY INITIATIVE

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Children's Literacy Initiative

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Literacy Initiative, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for each of the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Children's Literacy Initiative as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Report on Supplementary Information

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, as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 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 information 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 November 18, 2019 on our consideration of Children's Literacy Initiative's internal control over financial reporting and on our tests of its compliance with certain provision 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 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 Children's Literacy Initiative's internal control over financial reporting and compliance.

EisnerAmper LLP

EISNERAMPER LLP
Philadelphia, Pennsylvania
November 18, 2019

CHILDREN'S LITERACY INITIATIVE

Statements of Financial Position

	June 30	
	2019	**2018**
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 3,563,849**	$ 3,199,174
Certificates of deposit	**423,000**	330,000
Investments	**1,156,881**	1,904,325
Accounts receivable	**5,112,492**	2,408,596
Grants receivable	**759,028**	542,315
Inventory, net	**500,119**	600,935
Prepaid expenses and other assets	**198,491**	147,388
Total current assets	**11,713,860**	9,132,733
Grants receivable, net of current portion and discount	**614,387**	70,562
Property and equipment	**210,371**	83,987
	$ 12,538,618	$ 9,287,282
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	**$ 3,079,224**	$ 2,191,094
Deferred rent	**-**	3,546
Total current liabilities	**3,079,224**	2,194,640
Deferred rent, net of current portion	**33,020**	19,312
Total liabilities	**3,112,244**	2,213,952
NET ASSETS		
Without donor restrictions	**7,736,822**	5,761,557
With donor restrictions	**1,689,552**	1,311,773
Total net assets	**9,426,374**	7,073,330
	$ 12,538,618	$ 9,287,282

See notes to financial statements

CHILDREN'S LITERACY INITIATIVE

Statements of Activities and Changes in Net Assets

	Year Ended June 30					
	2019			2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and revenues:						
School district contracts	**$ 24,009,558**	**$ -**	**$ 24,009,558**	$ 16,277,779	$ -	$ 16,277,779
Federal grants	**5,580,323**	**-**	**5,580,323**	5,664,977	-	5,664,977
Philanthropic grants and contributions	**2,386,734**	**1,594,811**	**3,981,545**	1,976,217	656,882	2,633,099
Investment income, net	**79,474**	**-**	**79,474**	76,992	-	76,992
Other income	**69,346**	**-**	**69,346**	32,538	-	32,538
Net assets released from restrictions	**1,217,032**	**(1,217,032)**	**-**	1,736,284	(1,736,284)	-
	33,342,467	**377,779**	**33,720,246**	25,764,787	(1,079,402)	24,685,385
Expenses:						
Program - literacy development	**27,433,511**	**-**	**27,433,511**	21,737,800	-	21,737,800
General and administrative	**2,456,595**	**-**	**2,456,595**	1,986,179	-	1,986,179
Fundraising	**1,477,096**	**-**	**1,477,096**	1,368,402	-	1,368,402
	31,367,202	**-**	**31,367,202**	25,092,381	-	25,092,381
Change in net assets	**1,975,265**	**377,779**	**2,353,044**	672,406	(1,079,402)	(406,996)
Net assets at beginning of year	**5,761,557**	**1,311,773**	**7,073,330**	5,089,151	2,391,175	7,480,326
Net assets at end of year	**$ 7,736,822**	**$ 1,689,552**	**$ 9,426,374**	$ 5,761,557	$ 1,311,773	$ 7,073,330

See notes to financial statements

CHILDREN'S LITERACY INITIATIVE

Statements of Functional Expenses

	Year Ended June 30							
	2019				2018			
	Program Services	Supporting Services			Program Services	Supporting Services		
	Literacy Development	General and Administrative	Fundraising	Total	Literacy Development	General and Administrative	Fundraising	Total
Payroll and payroll taxes	$ 15,475,791	$ 1,868,258	$ 1,106,363	$ 18,450,412	$ 12,016,481	$ 1,504,833	$ 1,023,876	$ 14,545,190
Employee benefits	2,083,156	251,481	148,925	2,483,562	1,748,682	218,989	148,998	2,116,669
	17,558,947	2,119,739	1,255,288	20,933,974	13,765,163	1,723,822	1,172,874	16,661,859
Advertising	26,624	3,214	1,903	31,741	63,928	8,006	5,447	77,381
Bad debt	-	10,000	-	10,000	-	-	-	-
Books	2,106,986	-	-	2,106,986	796,805	-	-	796,805
Insurance	156,049	18,838	11,156	186,043	139,524	17,473	11,888	168,885
Legal and accounting	88,960	10,739	6,360	106,059	94,209	11,798	8,027	114,034
Maintenance	634,123	76,552	45,334	756,009	445,574	55,800	37,966	539,340
Office	600,235	72,460	42,911	715,606	497,153	62,258	42,360	601,771
Professional fees	1,054,606	11,463	13,253	1,079,322	1,218,882	18,452	19,817	1,257,151
Program consultants	3,159,311	-	-	3,159,311	3,101,896	-	-	3,101,896
Program materials	956,201	-	-	956,201	906,963	-	-	906,963
Recruiting	236,140	28,507	16,882	281,529	117,439	14,707	10,007	142,153
Rent	418,724	52,340	52,340	523,404	221,933	27,741	27,742	277,416
Travel	390,042	47,086	27,884	465,012	299,280	37,479	25,500	362,259
Utilities	8,530	1,066	1,066	10,662	22,375	2,797	2,797	27,969
	27,395,478	2,452,004	1,474,377	31,321,859	21,691,124	1,980,333	1,364,425	25,035,882
Depreciation	38,033	4,591	2,719	45,343	46,676	5,846	3,977	56,499
	$ 27,433,511	$ 2,456,595	$ 1,477,096	$ 31,367,202	$ 21,737,800	$ 1,986,179	$ 1,368,402	$ 25,092,381

CHILDREN'S LITERACY INITIATIVE

Statements of Cash Flows

	Year Ended June 30	
	2019	**2018**
Cash flows from operating activities:		
Change in net assets	**$ 2,353,044**	$ (406,996)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized gain on investments	**(47,362)**	(44,779)
Bad debt expense	**10,000**	-
Depreciation	**45,343**	56,499
Change in assets and liabilities:		
Accounts receivable	**(2,713,896)**	(1,209,920)
Grants receivable	**(760,538)**	1,046,222
Inventory	**100,816**	(2,844)
Prepaid expenses	**(51,103)**	(14,459)
Accounts payable and accrued expenses	**888,130**	(1,024,197)
Deferred revenue	**-**	(2,500)
Deferred rent	**10,162**	12,560
Net cash used in operating activities	**(165,404)**	(1,590,414)
Cash flows from investing activities:		
Proceeds from sales of investments	**1,251,670**	523,007
Purchase of investments	**(456,864)**	(570,545)
Purchase of property and equipment	**(171,727)**	(77,363)
Proceeds from redemptions of certificates of deposit	**698,000**	570,000
Purchase of certificates of deposit	**(791,000)**	(640,000)
Net cash provided by (used in) investing activities	**530,079**	(194,901)
Net increase (decrease) in cash and cash equivalents	**364,675**	(1,785,315)
Cash and cash equivalents at beginning of year	**3,199,174**	4,984,489
Cash and cash equivalents at end of year	**$ 3,563,849**	$ 3,199,174
Supplemental disclosure of noncash investing activities:		
Disposal of fully depreciated property and equipment	**$ 602,189**	$ -

NOTE A - NATURE OF OPERATIONS

Since 1988, Children's Literacy Initiative (the "Organization") has worked with pre-kindergarten through third grade teachers to transform instruction so that children can become powerful readers, writers, and thinkers. The Organization's focus on improving literacy instruction in the early grades is grounded in research: reading proficiently by the end of third grade is key for future success, and teaching quality has a greater effect on student achievement than any other in-school factor. The Organization provides educators with training and coaching in effective literacy instruction, outfits classrooms with learning materials and children's books, and extends its in-school services through its online professional development portal. The Organization provides these services to school districts in numerous cities and counties including, Philadelphia, Pennsylvania, Newark, New Jersey, Elizabeth, New Jersey, Passaic, New Jersey, Houston, Texas, Denver, Colorado, Broward County, Florida and Chicago, Illinois.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the Organization in the preparation of the financial statements.

[1] Basis of presentation:

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

[2] Classification of net assets:

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions and donor-restricted contributions whose restrictions are met in the same reporting period as when the contributions are received.

Net Assets With Donor Restrictions – Net assets subject to donor- or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

[3] Revenue recognition:

The Organization receives revenue from grants and contributions as well as cost reimbursement contracts from the federal government and fee-for-service contracts with various school districts. Cost reimbursement revenue is recognized when costs are incurred. Fee-for-service revenue has been recognized when the services have been provided only to the extent allowed under the contract. Deferred revenue is recorded when the Organization bills for work not yet performed on fee-for-service contracts.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Government grants and school district contracts:

The Organization earns substantial grant and contract revenue from certain government grants and school district contracts.

During the year ended June 30, 2019, one government grant accounted for approximately 17% of total revenue and two school district contracts accounted for approximately 61% of total revenue. These sources comprised $4,053,235 of accounts receivable as of June 30, 2019.

During the year ended June 30, 2018, one government grant accounted for approximately 23% of total revenue and one school district contract accounted for approximately 53% of total revenue. These sources comprised $1,380,860 of accounts receivable as of June 30, 2018.

[5] Philanthropic grants and contributions:

The Organization receives significant philanthropic grants and contributions from individuals, corporations and foundations including unconditional promises to give, which are recognized as revenue in the period the contribution is received. All contributions are considered available for unrestricted use unless specifically restricted by donor request.

[6] Cash and cash equivalents:

Cash and cash equivalents consist of cash accounts at financial institutions and nonbank money market funds. The Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. These investments are managed in accordance with the Board-approved investment policy.

[7] Concentration of credit and market risks:

Financial instruments, which potentially expose the Organization to concentrations of credit risk, consist primarily of cash and investments. At times, the Organization may have cash deposits and temporary cash investments with major financial institutions which exceed Federal Deposit Insurance Corporation limits. Management does not believe cash is subject to undue risk when balances exceed federally insured limits.

The Organization invests in investment securities that are exposed to various risks, such as interest rate, market and credit risk. It is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the financial statements.

[8] Certificates of deposit:

Certificates of deposit as of June 30, 2019 include two certificates of deposit for $203,000 and $220,000 with maturity dates of August 7, 2019 and November 14, 2019, respectively, and bearing interest at rates of 2.30% and 2.40%, respectively.

Certificates of deposit as of June 30, 2018 include two certificates of deposit for $150,000 and $180,000 with maturity dates of August 7, 2018 and November 19, 2018, respectively, and bearing interest rates of 1.65% and 1.95%, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Investments:

All investments are stated at their fair values. Fair values for stocks and mutual funds are based on quoted market prices. Invested cash and investments in money markets are valued at cost which approximates fair value. Interest and dividends and unrealized gains and losses are included in change in net assets in the accompanying statements of activities and changes in net assets as investment income. Investments received by gift are recorded at fair value at the date of receipt.

[10] Accounts receivable and allowance for doubtful accounts:

Accounts receivable are uncollateralized school district obligations due under normal trade terms requiring payment within 30 days from invoice date. Grants receivable consist of current and multi-year grants that have not been received.

Accounts receivable are stated at the amount billed to the school district. Account balances from invoices aged over 90 days are considered delinquent.

The carrying amount of grants and accounts receivable are reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all grants and accounts receivable balances that exceed 90 days from invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. As of June 30, 2019 and 2018, no allowance was considered necessary.

[11] Inventory:

Inventory consists of various books and literacy materials and is stated at the lower of cost (determined by the first-in, first-out method) or net realizable value. Management provides an inventory allowance based on its historical experience with obsolescence and transitional items.

[12] Property and equipment:

Property and equipment is stated at cost less accumulated depreciation. Contributed property and equipment is recorded at fair value at the date of donation. The Organization capitalizes all additions over $5,000, while all other costs that do not improve or extend the useful lives of the respective assets are expensed in the period in which they occur.

The Organization computes depreciation using the straight-line method over the following estimated useful lives:

Computer equipment and software	3 - 5 years
Office equipment	5 years
Furniture	5 - 7 years
Leasehold improvements	Lesser of 5 - 10 years or life of lease

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2019 and 2018, and in the opinion of management, there was no impairment. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[13] Advertising:

Advertising costs are expensed as incurred. Total advertising expense for the years ended June 30, 2019 and 2018 was $31,741 and $77,381, respectively.

[14] Functional allocation of expenses:

Directly identifiable expenses are charged to program services, general and administrative, and fundraising as incurred. Salaries, payroll taxes, and benefits are charged to the different functions based on the employees actual functions performed. Expenses related to more than one function are allocated among the functions benefited, as follows: rent, utilities, travel, accounting and legal, professional fees, maintenance, recruiting, office, depreciation, insurance, and advertising – based on usage or time and effort as estimated by management.

[15] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

[16] Federal tax status:

The Internal Revenue Service has classified the Organization as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("Code"); as an organization, contributions to which are deductible under Section 170(c) of the Code; and as an organization that is not a private foundation as defined in Section 509(a) of the Code.

U.S. GAAP requires management to evaluate tax positions taken and recognize a tax liability, if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by a government authority. Management has analyzed the tax positions taken by the Organization and has concluded that as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of general and administrative expenses. There were no income tax related interest and penalties recorded for either of the years ended June 30, 2019 or 2018.

[17] New accounting pronouncement:

In August 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: a) net asset classes, b) investment return, c) expenses, d) liquidity and availability of resources, and e) presentation of operating cash flows. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. The Organization has adopted the ASU as of and for the year ended June 30, 2019. The adoption of ASU 2016-14 will require reclassification of net asset classes and disclosures related to liquidity and availability of resources.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[18] Upcoming accounting pronouncements:

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced revenue related disclosures. This standard is effective for fiscal years beginning after December 15, 2018. The Organization does not believe the adoption of this guidance will have a material impact on its financial statements, although additional disclosures will be required.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard requires entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU 2016-02 will be effective for nonpublic entities for fiscal years beginning after December 15, 2020, with early adoption permitted. The guidance is required to be applied by the modified retrospective transition approach. Management is currently assessing the impact of the adoption of the new guidance on its financial statements and related disclosures.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves guidance concerning, 1) evaluating whether a transaction should be accounted for as an exchange transaction or as a contribution, and 2) determining whether a contribution received is conditional. ASU 2018-08 is effective for annual periods beginning after December 15, 2018 for entities that are resource recipients and for annual periods beginning after December 15, 2019 for entities that are resource providers, with early adoption permitted. ASU 2018-08 should be applied on a modified prospective basis. Management is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

[19] Reclassification:

Certain amounts in the 2018 financial statements have been reclassified to conform with the current year presentation.

NOTE C - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of June 30, 2019:

Current financial assets:	
Cash and cash equivalents	$ 3,563,849
Certificates of deposit	423,000
Investments	1,156,881
Accounts receivable	5,112,492
Grants receivable	759,028
Financial assets available to meet cash needs for general expenditures within one year	$ 11,015,250

General expenditures include program service expenses, general and administrative expenses, and fundraising expenses expected to be paid in the subsequent year.

NOTE C - LIQUIDITY AND AVAILABILITY (CONTINUED)

As part of the Organization's liquidity management plan, the Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term liquid investments. As more fully described in Note J, the Organization also has a committed line-of-credit in the amount of $1,800,000 as of June 30, 2019, $1,800,000 of which it could draw upon in the event of an unanticipated liquidity need.

NOTE D - ACCOUNTS RECEIVABLE

The Organization's accounts receivable consist of the following as of June 30, 2019 and 2018:

	2019	**2018**
School District of Philadelphia	**$ 1,881,647**	$ 1,258,069
Newark Public Schools	**1,562,987**	3,500
U.S. Department of Education	**608,601**	122,791
Elizabeth Public Schools	**572,877**	489,913
Willingboro Public Schools	**211,497**	-
Broward County Public Schools	**70,000**	70,000
Bridgeton Board of Education	**35,800**	24,035
Passaic Board of Education	**34,655**	144,854
Mastery Charter Schools	**32,040**	-
Augusta County School Board	**28,695**	-
Community Education Alliance	**23,940**	30,000
Highbridge Advisory Council	**20,400**	21,000
East Greenwich Township Board of Education	**14,007**	-
Houston Independent School District	**10,000**	-
Chicago Public Schools	**-**	24,472
Kearny Board of Education	**-**	96,577
University of Pittsburgh	**-**	7,106
Vineland Board of Education	**-**	6,992
Drexel University	**-**	60,000
Universal Education Companies	**-**	45,795
Others	**5,346**	3,492
	$ 5,112,492	$ 2,408,596

NOTE E - GRANTS RECEIVABLE

As of June 30, 2019 and 2018, the Organization recorded grants receivable of $1,373,415 and $612,877, respectively. The grants receivable are considered fully collectible and consist of the following as of June 30, 2019 and 2018:

2019			
Due Within	**Gross Grants Receivable**	*** Discount**	**Net Grants Receivable**
1 year	**$ 759,028**	**$ -**	**$ 759,028**
1 to 5 years	**635,579**	**21,192**	**614,387**
	$ 1,394,607	**$ 21,192**	**$ 1,373,415**

2018			
Due Within	**Gross Grants Receivable**	*** Discount**	**Net Grants Receivable**
1 year	$ 542,315	$ -	$ 542,315
1 to 5 years	72,766	2,204	70,562
	$ 615,081	$ 2,204	$ 612,877

* The gross grants receivable that are due in future periods are discounted to present value using interest rates ranging from 1.55% to 1.71%.

NOTE F - INVENTORY

Inventory consists of the following as of June 30, 2019 and 2018:

	2019	**2018**
Books	**$ 504,589**	$ 603,039
Less inventory allowance	**(4,470)**	(2,104)
	$ 500,119	$ 600,935

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2019 and 2018:

	2019	2018
Computer equipment and software	**$ 283,348**	$ 323,931
Office equipment	**77,363**	151,611
Furniture	**-**	71,661
Leasehold improvements	**171,728**	415,698
	532,439	962,901
Less accumulated depreciation	**(322,068)**	(878,914)
	$ 210,371	$ 83,987

Depreciation was $45,343 and $56,499 for the years ended June 30, 2019 and 2018, respectively.

NOTE H - INVESTMENTS

Investments consist of the following as of June 30, 2019 and 2018:

	2019		
	Costs	Market Value	Unrealized Gain
Equity	**$ 308,570**	**$ 358,055**	**$ 49,485**
Mutual funds	**744,727**	**798,826**	**54,099**
	$ 1,053,297	**$ 1,156,881**	**$ 103,584**

	2018		
	Costs	Market Value	Unrealized Gain
Equity	$ 308,527	$ 353,897	$ 45,370
Mutual funds	1,545,520	1,550,428	4,908
	$ 1,854,047	$ 1,904,325	$ 50,278

NOTE H - INVESTMENTS (CONTINUED)

Investments income is comprised of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividends	**$ 43,028**	$ 42,887
Realized gains (losses)	**(6,061)**	60,001
Unrealized gains (losses)	**53,423**	(15,222)
Investment fees	**(10,916)**	(10,674)
	$ 79,474	$ 76,992

NOTE I - FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various valuation approaches, including market, income and/or cost approaches. The Organization uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

The following is a description of the valuation methodology used for assets measured at fair value, which has not changed from the one used as of June 30, 2019 and 2018.

Equity and mutual funds − Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

NOTE I - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth, by level, the Organization's investment assets at fair value, within the fair value hierarchy, as of June 30, 2019 and 2018:

	Investment Assets at Fair Value as of June 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity	**$ 358,055**	**$ -**	**$ -**	**$ 358,055**
Mutual Funds	**798,826**	**-**	**-**	**798,826**
Total investment assets at fair value	**$ 1,156,881**	**$ -**	**$ -**	**$ 1,156,881**

	Investment Assets at Fair Value as of June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity	$ 353,897	$ -	$ -	$ 353,897
Mutual Funds	1,550,428	-	-	1,550,428
Total investment assets at fair value	$ 1,904,325	$ -	$ -	$ 1,904,325

NOTE J - LINE-OF-CREDIT

As of June 30, 2019, the Organization has a revolving line-of-credit arrangement with PNC Bank in the amount of $1,800,000, bearing interest at 2.75% plus Daily LIBOR rate (Daily LIBOR was 2.40% as of June 30, 2019). The line-of-credit agreement is collateralized by the Organization's personal property. The agreement expires on February 23, 2020. There was no balance outstanding under the line-of-credit agreement as of either June 30, 2019 or 2018. No interest was assessed under the line-of-credit agreement for either of the years ended June 30, 2019 or 2018.

NOTE K - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2019 and 2018:

	2019	**2018**
Subject to expenditures for specified purpose:		
Literacy Development	**$ 316,137**	$ 698,896
Subject to expenditures for specified purpose and passage of time:		
Multi-year Literacy Development Grants	**1,373,415**	612,877
	$ 1,689,552	$ 1,311,773

NOTE K - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from donor restriction from the passage of time or by incurring expenses satisfying the restricted purpose specified by the donors as follows for the years ended June 30, 2019 and 2018:

	2019	2018
Satisfaction of purpose restrictions:		
Literacy Development	**$ 686,697**	$ 804,004
i3 Scale-Up Contribution Match	**-**	350,000
Satisfaction of purpose and time restrictions:		
Multi-year Literacy Development Grants	**530,335**	582,280
	$ 1,217,032	$ 1,736,284

NOTE L - OPERATING LEASES

The Organization conducts its operations from facilities that are leased under operating leases expiring through July 2029. The Organization also has office equipment leases expiring through October 2024. As of June 30, 2019, the Organization was obligated under these lease arrangements as follows:

Year Ending June 30	Total	Offices	Equipment
2020	$ 541,746	$ 449,051	$ 92,695
2021	434,629	347,374	87,255
2022	427,971	346,838	81,133
2023	419,657	355,123	64,534
2024	400,497	363,417	37,080
Thereafter	1,985,067	1,975,797	9,270
	$ 4,209,567	$ 3,837,600	$ 371,967

Total office lease expense reported under these leases amounted to $523,405 and $277,416 for the years ended June 30, 2019 and 2018, respectively. The Organization maintains offices in Philadelphia, Pennsylvania, Irvington, New Jersey, Chicago, Illinois, Houston, Texas and Denver, Colorado. Total equipment lease expense reported under these leases amounted to $73,062 and $60,357 for the years ended June 30, 2019 and 2018, respectively, and is included in maintenance expense on the statements of functional expenses. Leases which required scheduled increases are recognized on the straight-line method. As of June 30, 2019 and 2018, deferred rent related to these leases totaled $33,020 and $22,858, respectively.

NOTE M - RETIREMENT PLAN

The Organization has a defined-contribution plan where the Organization has the option to make a discretionary nonelective contribution based on the relationship of an employee's annual salary to the total compensation of all participants. There are no age or service requirements. All full-time employees and part-time employees with over 1,000 hours worked are eligible to make elective deferrals through payroll deductions up to the Internal Revenue Service limits. The Organization's contribution was $444,981 and $420,656 for the years ended June 30, 2019 and 2018, respectively. Participants are 100% vested in the defined-contribution plan.

NOTE N - FEDERAL GRANTS - U.S. DEPARTMENT OF EDUCATION

In January 2016, the Organization was awarded a $19,446,538 five-year grant from the U.S. Department of Education. The grant is being used to implement the Organization's early literacy professional development program in Elizabeth, New Jersey, Houston, Texas, Denver, Colorado, and Broward County, Florida. For the years ended June 30, 2019 and 2018, the Organization has recorded $5,102,834 and $5,664,977, respectively, (for a cumulative total of $15,036,147) of revenue under this U.S. Department of Education grant. The amounts exclude match revenues of $190,000 and $610,000 (for a cumulative total of $1,948,522) for the years ended June 30, 2019 and 2018, respectively.

In October 2018, the Organization was awarded a $3,892,707 five-year grant from the U.S. Department of Education. The grant is being used to continue the Organization's early literacy professional development program. For the years the ended June 30, 2019 and 2018, the Organization has recorded $477,489 and $-0-, respectively, (for a cumulative total of $477,489) of revenue under this U.S. Department of Education grant. The amounts exclude match revenues of $8,541 and $-0- (for a cumulative total of $8,541) for the years ended June 30, 2019 and 2018, respectively.

NOTE O - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 18, 2019, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION FOR
U.S. OFFICE OF MANAGEMENT AND BUDGET UNIFORM GUIDANCE

CHILDREN'S LITERACY INITIATIVE

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Grantor/Pass-through Grantor/Program Title	CFDA Number (1)	Contract Number	Grant Period		Expenditures
U.S. Department of Education					
State Fiscal Stabilization Fund - Investing in Innovation (i3) Fund, Recovery Act (Non-ARRA Funds)	84.411A (Scale-up grants)	U411A150002	01/01/16-09/30/20	*	$ 5,102,834
Education Innovation and Research	84.411C	U411C180151	10/1/2018 - 9/30/2023		477,489
TOTAL FEDERAL AWARDS					$ 5,580,323

* Major Program

(1) Catalog of Federal Domestic Assistance

See notes to schedule of expenditures of federal awards

Notes to Schedule of Expenditures of Federal Awards

NOTE A - BASIS OF PRESENTATION

The accompanying supplementary schedule of expenditures of federal awards includes the federal award activity of Children's Literacy Initiative for the year ended June 30, 2019.

The information has been prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of Children's Literacy Initiative, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Children's Literacy Initiative.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

Children's Literacy Initiative has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Children's Literacy Initiative

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 Children's Literacy Initiative, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, 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 November 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Children's Literacy Initiative's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Children's Literacy Initiative's internal control. Accordingly, we do not express an opinion on the effectiveness of Children's Literacy Initiative'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 Children's Literacy Initiative'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 Children's Literacy Initiative's financial statements are free from 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 Children's Literacy Initiative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Children's Literacy Initiative's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

EisnerAmper LLP

EISNERAMPER LLP
Philadelphia, Pennsylvania
November 18, 2019

EISNERAMPER

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors of
Children's Literacy Initiative

Report on Compliance for the Major Federal Program

We have audited Children's Literacy Initiative's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on Children's Literacy Initiative's major federal program for the year ended June 30, 2019. Children's Literacy Initiative's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Children's Literacy Initiative's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Children's Literacy Initiative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Children's Literacy Initiative's compliance.

Opinion on Compliance for the Major Federal Program

In our opinion, Children's Literacy Initiative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Children's Literacy Initiative is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered Children's Literacy Initiative's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Children's Literacy Initiative's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

EisnerAmper LLP

EISNERAMPER LLP
Philadelphia, Pennsylvania
November 18, 2019

CHILDREN'S LITERACY INITIATIVE

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiency(ies) identified?	_____ yes	__X__ none reported
Noncompliance material to financial statements noted?	_____ yes	__X__ no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiency(ies) identified?	_____ yes	__X__ none reported

Type of auditors' report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)	_____ yes	__X__ no

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
84.411A	State Fiscal Stabilization Fund - Investing in Innovation (i3) Fund, Recovery Act

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

Section II – Financial Statement Findings

NONE

Section III – Federal Award Findings and Questioned Costs

NONE

Section IV – Prior Audit Findings

NONE