

EISNERAMPER

CHILDREN'S LITERACY INITIATIVE

FINANCIAL STATEMENTS

JUNE 30, 2022 and 2021



CHILDREN'S LITERACY INITIATIVE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Children's Literacy Initiative

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Children's Literacy Initiative (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Children's Literacy Initiative, as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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



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Auditors' 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 auditors' 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 control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the 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 control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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



EISNERAMPER LLP
Philadelphia, Pennsylvania
January 5, 2023



CHILDREN'S LITERACY INITIATIVE

Statements of Financial Position

	June 30,	
	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,435,005	\$ 11,881,351
Investments	1,247,716	1,513,144
Accounts receivable	1,709,462	2,270,819
Contributions receivable:		
Governmental grants	232,013	520,809
Philanthropic grants	491,022	410,850
Inventory, net	167,850	199,087
Prepaid expenses and other assets	106,012	137,787
Total current assets	<u>12,389,080</u>	16,933,847
Philanthropic grants receivable, net of current portion and discount	180,584	155,241
Property and equipment, net	<u>175,559</u>	<u>164,093</u>
	<u><u>\$ 12,745,223</u></u>	<u><u>\$ 17,253,181</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,458,279	\$ 2,481,657
Loan payable, current portion	-	4,228,678
Deferred revenue	457,938	306,134
Deferred rent, current portion	19,241	34,471
Total current liabilities	<u>2,935,458</u>	7,050,940
Loan payable, net of current portion	-	1,956,522
Deferred rent, net of current portion	<u>96,847</u>	<u>61,852</u>
Total liabilities	<u>3,032,305</u>	9,069,314
NET ASSETS		
Without donor restrictions	8,609,978	6,593,446
With donor restrictions	<u>1,102,940</u>	<u>1,590,421</u>
Total net assets	<u>9,712,918</u>	8,183,867
	<u><u>\$ 12,745,223</u></u>	<u><u>\$ 17,253,181</u></u>

CHILDREN'S LITERACY INITIATIVE

Statements of Activities and Changes in Net Assets

	Year Ended June 30,					
	2022			2021		
	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	\$ 12,492,125	\$ -	\$ 12,492,125	\$ 16,829,264	\$ -	\$ 16,829,264
Governmental grants	1,599,003	-	1,599,003	2,918,118	-	2,918,118
Philanthropic grants and contributions	2,598,228	561,890	3,160,118	1,975,450	926,000	2,901,450
Investment income (loss), net	(215,861)	-	(215,861)	318,781	-	318,781
Gain on forgiveness of the PPP loan	6,185,200	-	6,185,200	-	-	-
Other income	41,590	-	41,590	60,155	-	60,155
Net assets released from restrictions	1,049,371	(1,049,371)	-	1,001,422	(1,001,422)	-
	<u>23,749,656</u>	<u>(487,481)</u>	<u>23,262,175</u>	<u>23,103,190</u>	<u>(75,422)</u>	<u>23,027,768</u>
Expenses:						
Program - literacy development	18,084,327	-	18,084,327	20,450,879	-	20,450,879
General and administrative	2,460,335	-	2,460,335	2,798,327	-	2,798,327
Fundraising	1,188,462	-	1,188,462	1,177,549	-	1,177,549
	<u>21,733,124</u>	<u>-</u>	<u>21,733,124</u>	<u>24,426,755</u>	<u>-</u>	<u>24,426,755</u>
Change in net assets	2,016,532	(487,481)	1,529,051	(1,323,565)	(75,422)	(1,398,987)
Net assets at beginning of year	<u>6,593,446</u>	<u>1,590,421</u>	<u>8,183,867</u>	<u>7,917,011</u>	<u>1,665,843</u>	<u>9,582,854</u>
Net assets at end of year	\$ 8,609,978	\$ 1,102,940	\$ 9,712,918	\$ 6,593,446	\$ 1,590,421	\$ 8,183,867

See notes to financial statements

CHILDREN'S LITERACY INITIATIVE

Statements of Functional Expenses

	Year Ended June 30,							
	2022				2021			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
	Literacy Development	General and Administrative	Fundraising		Literacy Development	General and Administrative	Fundraising	
Payroll and payroll taxes	\$ 12,597,367	\$ 1,923,133	\$ 894,803	\$ 15,415,303	\$ 13,944,641	\$ 2,038,884	\$ 857,659	\$ 16,841,184
Employee benefits	1,565,019	238,918	111,165	1,915,102	2,380,909	348,119	146,437	2,875,465
	14,162,386	2,162,051	1,005,968	17,330,405	16,325,550	2,387,003	1,004,096	19,716,649
Advertising	48,694	7,433	3,459	59,586	32,873	4,807	2,022	39,702
Books	617,868	-	-	617,868	404,379	-	-	404,379
Insurance	147,666	22,543	10,489	180,698	184,219	26,935	11,330	222,484
Legal and accounting	137,006	20,915	9,732	167,653	194,466	28,433	11,961	234,860
Maintenance	491,211	74,989	34,891	601,091	507,710	74,234	31,226	613,170
Office	279,635	42,690	19,863	342,188	215,248	31,471	13,239	259,958
Professional fees	1,351,705	36,567	60,720	1,448,992	1,106,807	161,829	68,074	1,336,710
Program consultants	608	-	-	608	804,054	-	-	804,054
Program materials	237,384	-	-	237,384	103,559	-	-	103,559
Recruiting	34,687	5,295	2,464	42,446	168,615	24,654	10,371	203,640
Rent	438,391	66,925	31,139	536,455	366,115	53,531	22,518	442,164
Travel	84,615	12,917	6,010	103,542	10,583	1,547	651	12,781
	18,031,856	2,452,325	1,184,735	21,668,916	20,424,178	2,794,444	1,175,488	24,394,110
Depreciation	52,471	8,010	3,727	64,208	26,701	3,883	2,061	32,645
	\$ 18,084,327	\$ 2,460,335	\$ 1,188,462	\$ 21,733,124	\$ 20,450,879	\$ 2,798,327	\$ 1,177,549	\$ 24,426,755

See notes to financial statements

CHILDREN'S LITERACY INITIATIVE

Statements of Cash Flows

	Year Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 1,529,051	\$ (1,398,987)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized losses (gains) on investments	241,024	(303,158)
Gain on forgiveness of the Paycheck Protection Program loan	(6,185,200)	-
Depreciation	64,208	32,645
Deferred rent	19,765	-
Changes in assets and liabilities:		
Accounts receivable	561,357	1,959,119
Contributions receivable - governmental grants	288,796	54,197
Contributions receivable - philanthropic grants	(105,515)	174,388
Inventory	31,237	34,060
Prepaid expenses	31,775	99,768
Accounts payable and accrued expenses	(23,378)	(640,875)
Deferred revenue	151,804	(59,319)
Deferred rent	-	(1,413)
Net cash used in operating activities	<u>(3,395,076)</u>	<u>(49,575)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	175,092	115,701
Purchase of investments	(150,688)	(164,040)
Purchase of property and equipment	(75,674)	(19,012)
Net cash used in investing activities	<u>(51,270)</u>	<u>(67,351)</u>
Cash flows from financing activities:		
Proceeds from loan payable	-	2,000,000
Net (decrease) increase in cash and cash equivalents	(3,446,346)	1,883,074
Cash and cash equivalents at beginning of year	<u>11,881,351</u>	<u>9,998,277</u>
Cash and cash equivalents at end of year	<u>\$ 8,435,005</u>	<u>\$11,881,351</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

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, Broward County, Florida, Chicago, Illinois, Omaha, Nebraska and Boston, Massachusetts.

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-imposed 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-imposed (or certain grantor-imposed) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed 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. The Organization reports contributions with donor restrictions as support without donor restrictions if the restrictions are met in the same reporting period as when the contributions are received.

[3] Revenue recognition:

School district contracts

The Organization earns revenue from contracts with customers through services provided to various school districts.

Revenue is recognized as performance obligations in each contract is satisfied for the amount of consideration the Organization expects to be entitled to receive for the related service.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Revenue recognition: (continued)

School district contracts (continued)

The performance obligations include coaching hours, seminars and materials to be supplied by the Organization. The performance obligations are either recognized over time or at a point in time based on the terms of the contracts. Revenues related to contracts that call for a rate per service hour are recognized at the point in time the service is provided as that is when the obligation is considered satisfied. Revenues related to contracts that require a service be provided over a school year or similar period of time are generally recognized equally over time as the obligations are generally satisfied consistently over the contract term. The transaction price is generally the rate or fee associated with each performance obligation as specified by the contract. Invoices are sent monthly and payment is due within 30 days of the invoice date.

Revenue recognized over time amounted to \$6,223,478 and \$13,705,481 for the years ended June 30, 2022 and 2021, respectively, and revenues recognized at a point in time amounted to \$6,268,647 and \$3,123,783 for the years ended June 30, 2022 and 2021, respectively. Amounts earned but not received are included as accounts receivable and amounts received but not earned are included as deferred revenue (contract liability) on the statements of financial position. The amount earned but not received was \$4,229,938 as of June 30, 2020, and the amount received but not earned was \$365,453 as of June 30, 2020.

Philanthropic grants and contributions

The Organization receives philanthropic grants and contributions from individuals, corporations and foundations including unconditional promises to give. These grants and contributions provide funding to be used to support the mission of the Organization. As the donors are not receiving a benefit as a result of these transactions, the grants and contributions are considered to be contribution revenue to the Organization. Some grants and contributions require that funds be expended for a specific purpose or over a specific period of time, and are considered to be net assets with donor restrictions.

The Organization recognizes unconditional contributions when cash, securities or other assets or an unconditional promise to give is received, and are recorded after discounting to the present value of the expected future cash flows. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Governmental grants

The Organization receives government grants and contracts. These grants and contracts provide funding to be used for purposes indicated in the grant agreements. As the government is not receiving a benefit as a result of these transactions, the grants and contracts are considered to be contributions to the Organization. The grant and contract agreements contain spending requirements. As these stipulations create a barrier that must be achieved, government grants and contracts are considered to be conditional contributions until such time as the barriers are overcome. Contributions from these grant and contract agreements are therefore recognized as revenue when costs are incurred and specific service requirements are met, as required by the agreements. Conditional government grants of \$803,100 and \$1,632,727 as of June 30, 2022 and 2021, respectively, will be recognized in subsequent years as costs are incurred and service requirements are met (see Note O).

Until the financial information required by the funding sources is accepted, costs billed for program services under cost reimbursement contracts are subject to review and possible disallowance. In management's opinion, the potential for material disallowances is remote, and, therefore, is not a barrier that would prevent the recognition of revenue.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] 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.

[5] 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.

[6] Accounts receivable:

Accounts receivable are uncollateralized school district obligations due under normal trade terms requiring payment within 30 days from invoice date.

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 accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all 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. All balances are expected to be collected; therefore, no allowance has been recorded as of either June 30, 2022 or 2021.

[7] Contributions receivable:

Contributions receivable are stated at the amount management expects to collect from outstanding balances. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history and type of contribution. All balances are expected to be collected; therefore, no allowance has been recorded as of either June 30, 2022 or 2021.

[8] 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.

[9] Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Contributed property and equipment are 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.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Property and equipment: (continued)

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, 2022 and 2021, 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.

[10] Loan payable:

The Organization has elected to record the Paycheck Protection Program loan ("PPP Loan") as a loan payable. Loan forgiveness was recognized when the conditions for loan forgiveness were met and the forgiveness amount was formally approved by the bank and the U.S. Small Business Administration (the "SBA").

[11] Advertising:

Advertising costs are expensed as incurred. Total advertising expense for the years ended June 30, 2022 and 2021 was \$59,586 and \$39,702, respectively.

[12] Functional allocation of expenses:

Directly identifiable expenses are charged to program services, general and administrative, and fundraising as incurred. Payroll, payroll taxes, and employee 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, travel, legal and accounting, professional fees, maintenance, recruiting, office, depreciation, insurance, and advertising – based on usage or time and effort as estimated by management.

[13] 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.

[14] 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.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[14] Federal tax status: (continued)

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, 2022 and 2021, 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, 2022 or 2021.

[15] Recent accounting pronouncement:

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying FRF for SMEs to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective upon issuance and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The Organization's line-of-credit bears interest based on the LIBOR rate which will cease to be provided after June 30, 2023. At that time, an alternative rate will be negotiated with the bank.

[16] Upcoming accounting pronouncement:

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. For nonpublic business entities, ASU 2020-05 deferred the date of implementation to fiscal years beginning after December 15, 2021. 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.

[17] Reclassification:

Certain reclassifications have been made to the 2021 presentation to conform to the 2022 presentation.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

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 statements of financial position date, comprise of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Current financial assets:		
Cash and cash equivalents	\$ 8,435,005	\$ 11,881,351
Investments	1,247,716	1,513,144
Accounts receivable, net of allowance for doubtful accounts	1,709,462	2,270,819
Contributions receivable:		
Governmental grants	232,013	520,809
Philanthropic grants	491,022	410,850
	<u> </u>	<u> </u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,115,218</u>	<u>\$ 16,596,973</u>

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

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 both June 30, 2022 and 2021, \$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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Elizabeth Public Schools	\$ 944,668	\$ -
Passaic Board of Education	251,881	385,724
People for People Charter School	226,758	-
School District of Philadelphia	214,508	1,673,856
Pan American Charter School	35,119	39,630
Newark Public Schools	16,557	-
Independence Charter School	15,713	23,445
Omaha Public Schools	-	67,013
Mastery Charter Schools	-	34,878
Fund for School District of Philadelphia	-	20,872
Chicago Public Schools	-	16,551
Others	4,258	8,850
	<u> </u>	<u> </u>
	<u>\$ 1,709,462</u>	<u>\$ 2,270,819</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE E - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of June 30, 2022 and 2021:

2022				
<u>Due Within</u>	<u>Gross Governmental Contributions Receivable</u>	<u>Gross Philanthropic Contributions Receivable</u>	<u>* Discount</u>	<u>Net Contributions Receivable</u>
1 year	\$ 232,013	\$ 491,022	\$ -	\$ 723,035
1 to 5 years	-	187,000	6,416	180,584
	<u>\$ 232,013</u>	<u>\$ 678,022</u>	<u>\$ 6,416</u>	<u>\$ 903,619</u>
2021				
<u>Due Within</u>	<u>Gross Governmental Contributions Receivable</u>	<u>Gross Philanthropic Contributions Receivable</u>	<u>* Discount</u>	<u>Net Contributions Receivable</u>
1 year	\$ 520,809	\$ 410,850	\$ -	\$ 931,659
1 to 5 years	-	156,672	1,431	155,241
	<u>\$ 520,809</u>	<u>\$ 567,522</u>	<u>\$ 1,431</u>	<u>\$ 1,086,900</u>

* The gross grants receivable that are due in future periods that are discounted to present value using an interest rate of 2.99% and 0.46% as of June 30, 2022 and 2021, respectively.

NOTE F - INVENTORY

Inventory consists of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Books	\$ 172,320	\$ 203,557
Less inventory allowance	<u>(4,470)</u>	<u>(4,470)</u>
	<u>\$ 167,850</u>	<u>\$ 199,087</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Computer equipment and software	\$ 359,022	\$ 283,348
Office equipment	77,363	77,363
Leasehold improvements	<u>190,740</u>	<u>190,740</u>
	627,125	551,451
Less accumulated depreciation	<u>(451,566)</u>	<u>(387,358)</u>
	<u>\$ 175,559</u>	<u>\$ 164,093</u>

Depreciation was \$64,208 and \$32,645 for the years ended June 30, 2022 and 2021, respectively.

NOTE H - INVESTMENTS

Investments consist of the following as of June 30, 2022 and 2021:

	<u>2022</u>		
	<u>Costs</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Equity	\$ 672,047	\$ 818,191	\$ 146,144
Mutual funds	<u>471,526</u>	<u>429,525</u>	<u>(42,001)</u>
	<u>\$ 1,143,573</u>	<u>\$ 1,247,716</u>	<u>\$ 104,143</u>
	<u>2021</u>		
	<u>Costs</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Equity	\$ 667,754	\$ 1,024,225	\$ 356,471
Mutual funds	<u>472,012</u>	<u>488,919</u>	<u>16,907</u>
	<u>\$ 1,139,766</u>	<u>\$ 1,513,144</u>	<u>\$ 373,378</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE H - INVESTMENTS (CONTINUED)

Investment income (loss) is comprised of the following for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 41,931	\$ 28,531
Realized and unrealized gains (losses)	(241,024)	303,158
Investment fees	<u>(16,768)</u>	<u>(12,908)</u>
	<u>\$ (215,861)</u>	<u>\$ 318,781</u>

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, 2022 and 2021.

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.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

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, 2022 and 2021:

	Investment Assets at Fair Value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Equity	\$ 818,191	\$ -	\$ -	\$ 818,191
Mutual Funds	429,525	-	-	429,525
Total investment assets at fair value	<u>\$ 1,247,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,247,716</u>

	Investment Assets at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Equity	\$ 1,024,225	\$ -	\$ -	\$ 1,024,225
Mutual Funds	488,919	-	-	488,919
Total investment assets at fair value	<u>\$ 1,513,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,513,144</u>

NOTE J - LINE-OF-CREDIT

As of June 30, 2022, 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 1.56729% as of June 30, 2022). The line-of-credit agreement is collateralized by the Organization's personal property. The agreement expires on February 28, 2023. There was no balance outstanding under the line-of-credit agreement as of either June 30, 2022 or 2021. No interest was assessed under the line-of-credit agreement for either of the years ended June 30, 2022 or 2021.

NOTE K - PPP LOAN PAYABLE

On April 18, 2020, the Organization received a \$4,185,200 loan pursuant to the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") PPP Loan. Neither principle nor interest was due for a six-month deferral period through October 2020. On August 4, 2021, the Organization's first PPP Loan for \$4,185,200 was forgiven in full as the Organization met the requirements in accordance with the SBA guidelines.

On March 22, 2021, the Organization received a second loan for \$2,000,000 pursuant to the CARES Act PPP. Neither principle nor interest was due until the earlier of the determination of loan forgiveness, if forgiveness is denied, or ten months after the end of the forgiveness period. On May 10, 2022, the Organization's second PPP Loan for \$2,000,000 was forgiven in full.

The gain on forgiveness of the PPP loans is recognized on the statement of activities for the year ended June 30, 2022.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE L - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to expenditures for specified purpose:		
Literacy Development	\$ 471,562	\$ 434,676
Professional Development	50,000	-
Operational initiatives	80,000	-
Subject to expenditures for specified purpose and passage of time:		
Multi-year Literacy Development Grants	451,378	1,155,745
Multi-year Professional Development	50,000	-
	<u>\$ 1,102,940</u>	<u>\$ 1,590,421</u>

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Literacy Development	\$ 384,042	\$ 499,143
Satisfaction of purpose and time restrictions:		
Multi-year Literacy Development Grants	665,329	502,279
	<u>\$ 1,049,371</u>	<u>\$ 1,001,422</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE M - 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 March 2027. As of June 30, 2022, the Organization was obligated under these lease arrangements as follows:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Offices</u>	<u>Equipment</u>
2023	\$ 493,895	\$ 459,335	\$ 34,560
2024	505,315	470,755	34,560
2025	451,554	416,994	34,560
2026	414,591	380,031	34,560
2027	414,272	388,352	25,920
Thereafter	835,693	835,693	-
	<u>\$ 3,115,320</u>	<u>\$ 2,951,160</u>	<u>\$ 164,160</u>

Total office lease expense reported under these leases amounted to \$536,455 and \$442,164 for the years ended June 30, 2022 and 2021, respectively. The Organization maintains offices in Philadelphia, Pennsylvania and Irvington, New Jersey. Total equipment lease expense reported under these leases amounted to \$36,426 and \$45,260 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, deferred rent related to these leases totaled \$116,088 and \$96,323, respectively.

NOTE N - 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. Participants are 100% vested in the defined-contribution plan. The Organization suspended the discretionary contributions on July 1, 2021. The Organization's contribution was \$21,617 and \$415,612 for the years ended June 30, 2022 and 2021, respectively.

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

In January 2016, the Organization was awarded a \$19,499,730 five-year grant from the U.S. Department of Education. In September 2020, the grant was extended through September 2021. 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, 2022 and 2021, the Organization has recorded \$67,098 and \$1,735,697, respectively, (for a cumulative total of \$19,499,730) of revenue under this U.S. Department of Education grant.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2022 and 2021

NOTE O - FEDERAL GRANTS - U.S. DEPARTMENT OF EDUCATION (CONTINUED)

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 ended June 30, 2022 and 2021, the Organization has recorded \$762,529 and \$865,072, respectively, (for a cumulative total of \$3,089,607) of revenue under this U.S. Department of Education grant. The amounts exclude match revenues of \$229,828 and \$45,000 (for a cumulative total of \$379,200) for the years ended June 30, 2022 and 2021, respectively.

NOTE P - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS AND CONTINGENCIES

Concentrations in government grants and school district contracts

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

During the year ended June 30, 2022, two school district contracts accounted for approximately 40% of total revenue. These sources comprised \$1,159,176 of accounts receivable as of June 30, 2022.

During the year ended June 30, 2021, two government grants accounted for approximately 11% of total revenue and one school district contract accounted for approximately 59% of total revenue. These sources comprised \$520,809 of contributions receivable – governmental grants and \$1,673,856 of accounts receivable as of June 30, 2021.

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.

NOTE Q - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 5, 2023, which is the date the financial statements were available to be issued.