

CHILDREN'S LITERACY INITIATIVE

FINANCIAL STATEMENTS

JUNE 30, 2023 and 2022

CHILDREN'S LITERACY INITIATIVE

Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Financial Statements	
Statements of financial position as of June 30, 2023 and 2022	3
Statements of activities and changes in net assets for the years ended June 30, 2023 and 2022	4
Statements of functional expenses for the years ended June 30, 2023 and 2022	5
Statements of cash flows for the years ended June 30, 2023 and 2022	6
Notes to financial statements	7 - 22

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, 2023 and 2022, 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, 2023 and 2022, 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.

Change in Accounting Principle

As discussed in Note B[6] to the financial statements, in the year ended June 30, 2023, the Organization adopted new accounting guidance for lease accounting in accordance with Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

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.

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

EISNERAMPER LLP
Philadelphia, Pennsylvania
November 29, 2023



CHILDREN'S LITERACY INITIATIVE

Statements of Financial Position

	June 30,	
	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,084,443	\$ 8,435,005
Restricted cash	800,000	-
Investments	1,380,997	1,247,716
Accounts receivable	1,105,727	1,709,462
Contributions receivable:		
Governmental grants	90,296	232,013
Philanthropic grants	147,445	491,022
Employee retention tax credit (ERTC) receivable	3,657,937	-
Inventory, net	157,269	167,850
Prepaid expenses and other assets	242,193	106,012
	9,666,307	12,389,080
Philanthropic grants receivable, net of current portion and discount	-	180,584
Property and equipment, net	126,825	175,559
Right-of-use assets - finance leases	110,124	-
Right-of-use assets - operating leases	1,799,879	-
	\$ 11,703,135	\$ 12,745,223
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,392,414	\$ 2,458,279
Deferred revenue	68,163	457,938
Current portion of finance lease obligations	27,521	-
Current portion of operating lease obligations	316,518	-
Deferred rent, current portion	-	19,241
	1,804,616	2,935,458
Finance lease obligations, net of current portion	86,289	-
Operating lease obligations, net of current portion	1,615,483	-
Deferred rent, net of current portion	-	96,847
	3,506,388	3,032,305
NET ASSETS		
Without donor restrictions	7,869,924	8,609,978
With donor restrictions	326,823	1,102,940
	8,196,747	9,712,918
	\$ 11,703,135	\$ 12,745,223

See notes to financial statements.

CHILDREN'S LITERACY INITIATIVE

Statements of Activities and Changes in Net Assets

	Year Ended June 30,					
	2023			2022		
	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	\$ 4,735,836	\$ -	\$ 4,735,836	\$ 12,492,125	\$ -	\$ 12,492,125
Governmental grants	1,613,334	-	1,613,334	1,599,003	-	1,599,003
Philanthropic grants and contributions	2,010,366	19,900	2,030,266	2,598,228	561,890	3,160,118
Investment income (loss), net	202,668	-	202,668	(215,861)	-	(215,861)
Gain on forgiveness of the Paycheck Protection Plan loan	-	-	-	6,185,200	-	6,185,200
Employee retention credit revenue	3,657,937	-	3,657,937	-	-	-
Other income	8,265	-	8,265	41,590	-	41,590
Net assets released from restrictions	796,017	(796,017)	-	1,049,371	(1,049,371)	-
	13,024,423	(776,117)	12,248,306	23,749,656	(487,481)	23,262,175
Expenses:						
Program - literacy development	11,187,189	-	11,187,189	18,084,327	-	18,084,327
General and administrative	1,581,318	-	1,581,318	2,460,335	-	2,460,335
Fundraising	995,970	-	995,970	1,188,462	-	1,188,462
	13,764,477	-	13,764,477	21,733,124	-	21,733,124
Change in net assets	(740,054)	(776,117)	(1,516,171)	2,016,532	(487,481)	1,529,051
Net assets at beginning of year	8,609,978	1,102,940	9,712,918	6,593,446	1,590,421	8,183,867
Net assets at end of year	\$ 7,869,924	\$ 326,823	\$ 8,196,747	\$ 8,609,978	\$ 1,102,940	\$ 9,712,918

See notes to financial statements.

CHILDREN'S LITERACY INITIATIVE

Statements of Functional Expenses

	Year Ended June 30,							
	2023				2022			
	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	\$ 7,693,766	\$ 1,115,889	\$ 702,827	\$ 9,512,482	\$ 12,597,367	\$ 1,923,133	\$ 894,803	\$ 15,415,303
Employee benefits	809,882	117,464	73,983	1,001,329	1,565,019	238,918	111,165	1,915,102
	8,503,648	1,233,353	776,810	10,513,811	14,162,386	2,162,051	1,005,968	17,330,405
Advertising	11,520	1,671	1,052	14,243	48,694	7,433	3,459	59,586
Books	103,325	-	-	103,325	617,868	-	-	617,868
Insurance	58,744	8,520	5,366	72,630	147,666	22,543	10,489	180,698
Legal and accounting	423,268	61,390	38,666	523,324	137,006	20,915	9,732	167,653
Maintenance	517,277	75,025	47,253	639,555	491,211	74,989	34,891	601,091
Office	74,409	10,792	6,797	91,998	279,635	42,690	19,863	342,188
Professional fees	677,878	98,318	61,924	838,120	1,351,705	36,567	60,720	1,448,992
Program consultants	-	-	-	-	608	-	-	608
Program materials	181,088	-	-	181,088	237,384	-	-	237,384
Recruiting	9,501	1,378	868	11,747	34,687	5,295	2,464	42,446
Rent	412,558	59,837	37,687	510,082	438,391	66,925	31,139	536,455
Travel	174,556	25,317	15,947	215,820	84,615	12,917	6,010	103,542
	11,147,772	1,575,601	992,370	13,715,743	18,031,856	2,452,325	1,184,735	21,668,916
Depreciation	39,417	5,717	3,600	48,734	52,471	8,010	3,727	64,208
	\$ 11,187,189	\$ 1,581,318	\$ 995,970	\$ 13,764,477	\$ 18,084,327	\$ 2,460,335	\$ 1,188,462	\$ 21,733,124

See notes to financial statements.

CHILDREN'S LITERACY INITIATIVE

Statements of Cash Flows

	Year Ended June 30,	
	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (1,516,171)	\$ 1,529,051
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized (gains) losses on investments	(100,501)	241,024
Gain on forgiveness of the Paycheck Protection Program loan	-	(6,185,200)
Depreciation	48,734	64,208
Deferred rent	-	19,765
Amortization of right-of-use assets - finance lease	29,366	-
Amortization of right-of-use assets - operating lease	301,021	-
Changes in assets and liabilities:		
Accounts receivable	603,735	561,357
Contributions receivable - governmental grants	141,717	288,796
Contributions receivable - philanthropic grants	524,161	(105,515)
ERTC receivable	(3,657,937)	-
Inventory	10,581	31,237
Prepaid expenses	(136,181)	31,775
Accounts payable and accrued expenses	(1,065,865)	(23,378)
Deferred revenue	(389,775)	151,804
Operating lease obligation	(284,987)	-
Net cash used in operating activities	<u>(5,492,102)</u>	<u>(3,395,076)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	142,545	175,092
Purchase of investments	(175,325)	(150,688)
Purchase of property and equipment	-	(75,674)
Net cash used in investing activities	<u>(32,780)</u>	<u>(51,270)</u>
Cash flows from financing activities:		
Payments on financing lease obligations	<u>(25,680)</u>	-
Net decrease in cash and cash equivalents and restricted cash	(5,550,562)	(3,446,346)
Cash and cash equivalents and restricted cash at beginning of year	<u>8,435,005</u>	<u>11,881,351</u>
Cash and cash equivalents and restricted cash at end of year	<u>\$ 2,884,443</u>	<u>\$ 8,435,005</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2023 and 2022

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, 2023 and 2022

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 \$0 and \$6,223,478 for the years ended June 30, 2023 and 2022, respectively, and revenues recognized at a point in time amounted to \$4,735,836 and \$6,268,647 for the years ended June 30, 2023 and 2022, 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 \$2,270,819 as of June 30, 2021, and the amount received but not earned was \$306,134 as of June 30, 2021.

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 \$37,572 and \$776,937 as of June 30, 2023 and 2022, respectively, will be recognized in subsequent years as costs are incurred and service requirements are met (see Note N).

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, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Revenue recognition: (continued)

Employee retention tax credit:

The CARES Act provides an employee retention credit ("CARES Employee Retention Credit"), which is a refundable tax credit against certain employment taxes. From March 12, 2020 through December 31, 2020, the tax credit is equal to 50% of qualified wages up to \$10,000 or a maximum credit of up to \$5,000 per employee. From January 1, 2021 through June 30, 2021, the tax credit is equal to 70% of qualified wages up to \$10,000 during a quarter or a maximum credit of up to \$14,000 per employee (or \$7,000 per quarter). During the fiscal years ended June 30, 2023, the Organization has applied for an Employee Retention Tax Credit (ERTC) of \$3,657,937 with the Internal Revenue Service (IRS) and has recognized revenue.

[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. To assure the line-of-credit arrangement discussed in Note J, the Organization is required to hold \$700,000 with the bank as a compensating balance. To assure a credit card arrangement with the same bank, the Organization is required to hold \$100,000 with the bank as a compensating balance. For the statements of cash flows, cash is defined as those amounts included in cash and cash equivalents and restricted cash on the statements of financial position.

[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] Leases:

The Organization determines if an arrangement is a lease at inception.

Operating leases:

Operating leases are recorded as operating lease right-of-use ("ROU") assets and operating lease liabilities (current portion and long-term portion) on the accompanying statements of financial position. Operating lease ROU assets and the related lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The operating lease ROU assets also include lease incentives and initial direct costs incurred. For operating leases, interest on the lease liability and the amortization of ROU asset result in straight-line rent expense over the lease term.

Leases may include options to extend or terminate the lease which are included in the ROU operating lease assets and operating lease liability when they are reasonably certain of exercise. Operating lease expense associated with minimum lease payments is recognized on a straight-line basis over the lease term. When additional payments are based on usage or vary based on other factors, they are considered variable lease payments and are excluded from the measurement of the ROU asset and lease liability. These payments are recognized as an expense in the period in which the related obligation was incurred. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Leases: (continued)

Finance leases:

Finance leases are recorded as finance lease ROU assets and finance lease liabilities (current portion and long-term portion) on the accompanying statements of financial position. Finance lease ROU assets and the related lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The finance lease ROU assets are amortized on a straight-line basis over the lease term with the related interest expense of the lease liability payment recognized over the lease term using the effective interest method.

For the year ended June 30, 2022, the Company accounted for leases under ASC 840. Operating leases were recorded on a straight-line basis over the term of the lease. Finance leases were included as a component of property plant and equipment and a related finance lease liability grouped in accounts payable and accrued expenses.

[7] 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, 2023 or 2022.

[8] 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, 2023 or 2022.

[9] 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.

[10] 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, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] 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, 2023 and 2022, 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.

[11] 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.

[12] Advertising:

Advertising costs are expensed as incurred. Total advertising expense for the years ended June 30, 2023 and 2022 was \$14,243 and \$59,586, respectively.

[13] 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.

[14] 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.

[15] 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 (the "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, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] 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, 2023 and 2022, 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, 2023 or 2022.

[16] Recently adopted accounting guidance:

In February 2016, the Financial Accounting Standards Board ("FASB") issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the standard effective July 1, 2022 and recognized and measured leases existing at July 1, 2022, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840. Accordingly, the Organization applied the guidance to each lease that had commenced as of the adoption date and also elected a package of practical expedients which included the following: no requirement to reassess (a) whether any expired or existing contracts are, or contain, leases, (b) the lease classification for any expired or existing leases and (c) the recognition requirements for initial direct costs for any existing leases. The Organization also elected a practical expedient to account for lease and non-lease components as a single lease component for all classes of underlying assets. The Organization excluded short-term leases having initial terms of twelve months or less from the new guidance as an accounting policy election and recognizes rent expense for such leases on a straight-line basis over the lease term. In calculating the related lease liabilities at the time of adoption, the Organization utilized historical experience when determining the noncancelable portion of the lease term and its incremental borrowing rate.

As a result of the adoption of the new lease accounting, the Organization recognized a lease liability at the carrying amount of the finance lease obligations on July 1, 2022 of \$139,490 and a ROU asset at the carrying amount of the finance lease asset of \$139,490. The Organization also recognized on July 1, 2022, an operating lease liability of \$2,216,988, which represents the present value of the remaining operating lease payments, discounted using the risk-free rate of 6.58%, and a ROU asset of \$2,100,900, which represents the operating lease liability of \$2,216,988 adjusted for deferred rent of \$116,089.

The standard had a material impact on the Organization's statements of financial position but did not have a material impact on its statements of activities and changes in net assets, nor statements of cash flows. The most significant impact was the recognition of ROU assets and lease obligations for operating leases.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2023 and 2022

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Current financial assets:		
Cash and cash equivalents	\$ 2,084,443	\$ 8,435,005
Investments	1,380,997	1,247,716
Accounts receivable	1,105,727	1,709,462
Contributions receivable:		
Governmental grants	90,296	232,013
Philanthropic grants	147,445	491,022
Employee retention tax credit (ERTC) receivable	3,657,937	-
	<u> </u>	<u> </u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,466,845</u>	<u>\$ 12,115,218</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 \$700,000, and \$1,800,000 as of June 30, 2023 and 2022, respectively, \$700,000 of which it could draw upon in the event of an unanticipated liquidity need.

NOTE D - ACCOUNTS RECEIVABLE

The Organization's accounts receivable consists of the following as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Elizabeth Public Schools	837,384	944,668
Marion P. Thomas Charter School	86,121	-
Chicago Public Schools	54,023	-
Andrew J. Morrison School	32,403	-
School District of Philadelphia	23,118	214,508
Independence Charter School	29,091	15,713
Universal Education Companies	28,993	-
People for People Charter School	14,547	226,758
Passaic Board of Education	-	251,881
Pan American Charter School	-	35,119
Newark Public Schools	-	16,557
Others	47	4,258
	<u> </u>	<u> </u>
	<u>1,105,727</u>	<u>1,709,462</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2023 and 2022

NOTE E - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of June 30, 2023 and 2022:

2023					
<u>Due Within</u>	<u>Gross Governmental Contributions Receivable</u>	<u>Employee Retention Tax Credit Contributions Receivable</u>	<u>Gross Philanthropic Contributions Receivable</u>	<u>Discount</u>	<u>Net Contributions Receivable</u>
1 year	<u>\$ 90,296</u>	<u>\$ 3,657,937</u>	<u>\$ 147,445</u>	<u>\$ -</u>	<u>\$ 3,895,678</u>
2022					
<u>Due Within</u>	<u>Gross Governmental Contributions Receivable</u>	<u>Employee Retention Tax Credit 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>\$ -</u>	<u>\$ 678,022</u>	<u>\$ 6,416</u>	<u>\$ 903,619</u>

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

NOTE F - INVENTORY

Inventory consists of the following as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Books	<u>\$ 161,739</u>	\$ 172,320
Less: inventory allowance	<u>(4,470)</u>	<u>(4,470)</u>
	<u>\$ 157,269</u>	<u>\$ 167,850</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2023 and 2022

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Computer equipment and software	\$ 359,022	\$ 359,022
Office equipment	77,363	77,363
Leasehold improvements	<u>190,740</u>	<u>190,740</u>
	627,125	627,125
Less: accumulated depreciation	<u>(500,300)</u>	<u>(451,566)</u>
	<u>\$ 126,825</u>	<u>\$ 175,559</u>

Depreciation was \$48,734 and \$64,208 for the years ended June 30, 2023 and 2022, respectively.

NOTE H - INVESTMENTS

Investments consist of the following as of June 30, 2023 and 2022:

	<u>2023</u>		
	<u>Costs</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Equity	\$ 633,165	\$ 885,187	\$ 252,022
Mutual funds	<u>552,160</u>	<u>495,810</u>	<u>(56,350)</u>
	<u>\$ 1,185,325</u>	<u>\$ 1,380,997</u>	<u>\$ 195,672</u>
	<u>2022</u>		
	<u>Costs</u>	<u>Market Value</u>	<u>Unrealized Gain</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>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2023 and 2022

NOTE H - INVESTMENTS (CONTINUED)

Investment income (loss) is comprised of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 118,511	\$ 41,931
Realized and unrealized gains (losses)	100,501	(241,024)
Investment fees	<u>(16,344)</u>	<u>(16,768)</u>
	<u>\$ 202,668</u>	<u>\$ (215,861)</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, 2023 and 2022.

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, 2023 and 2022

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, 2023 and 2022:

	Investment Assets at Fair Value as of June 30, 2023			
	Level 1	Level 2	Level 3	Total
Equity	\$ 885,187	\$ -	\$ -	\$ 885,187
Mutual funds	495,810	-	-	495,810
Total investment assets at fair value	\$ 1,380,997	\$ -	\$ -	\$ 1,380,997

	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	\$ 1,247,716	\$ -	\$ -	\$ 1,247,716

NOTE J - LINE-OF-CREDIT

As of June 30, 2023, the Organization has a revolving line-of-credit arrangement with PNC Bank in the amount of \$700,000, bearing interest at 2.75% plus Daily BSBY rate (Daily BSBY was 5.22% as of June 30, 2023). The line-of-credit agreement is collateralized by the Organization's \$700,000 restricted cash compensating balance. The agreement expires on February 28, 2024. There was no balance outstanding under the line-of-credit agreement as of either June 30, 2023 or 2022. No interest was assessed under the line-of-credit agreement for either of the years ended June 30, 2023 or 2022.

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, 2023 and 2022

NOTE L - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Subject to expenditures for specified purpose:		
Literacy development	\$ 161,478	\$ 471,562
Professional development	-	50,000
Operational initiatives	<u>17,900</u>	<u>-</u>
Subject to expenditures for specified purpose and passage of time:		
Multi-year literacy development grants	81,751	451,378
Multi-year professional development	<u>48,694</u>	<u>50,000</u>
Subject to passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>17,000</u>	<u>80,000</u>
	<u>\$ 326,823</u>	<u>\$ 1,102,940</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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions:		
Literacy development	\$ 310,084	\$ 384,042
Professional development	<u>50,000</u>	<u>-</u>
Satisfaction of purpose and time restrictions:		
Multi-year literacy development grants	369,627	665,329
Multi-year professional development	<u>1,306</u>	<u>-</u>
Satisfaction of time restrictions:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>65,000</u>	<u>-</u>
	<u>\$ 796,017</u>	<u>\$ 1,049,371</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2023 and 2022

NOTE M - LEASES

[1] Operating leases:

The Organization maintains operating lease agreements for office and storage space in buildings in Pennsylvania and New Jersey. The leases expire through July 2029. Monthly base rent under these leases is approximately \$39,000 with increases over the life of the leases. In addition to the base rent, some of the leases include variable lease payments requiring the Organization to pay its proportionate share of real estate taxes and operating expenses during the lease term. Such amounts are considered variable lease payments and are not included in operating leases ROU assets or operating lease obligations balances and are recognized in the period in which the expenses are incurred. The Organization's lease terms may include options to extend or terminate the leases when it is reasonably certain that the Organization will exercise any such option. The Organization's options to extend are not recognized as part of the operating leases ROU assets or operating lease obligations balances.

The liabilities under operating leases are recorded at the present value of the minimum lease payments. Lease expense relating to operating leases, consisting of ROU asset amortization and lease obligation interest, is included in rent expense on the accompanying statement of functional expenses.

[2] Finance leases:

The Organization leases certain equipment under a finance lease that expires March 2027. The liabilities under finance leases are recorded at the present value of the minimum lease payments. Amortization of finance lease ROU assets and interest expense related to finance leases are included in rent expense on the accompanying statement of functional expenses.

The following maturity analysis of the annual undiscounted cash flows of the operating and finance lease obligations as of June 30, 2023 is approximately as follows:

Year Ending June 30,	Operating Leases	Financing Leases
2024	\$ 441,089	\$ 34,560
2025	386,660	34,560
2026	349,032	34,560
2027	356,686	25,920
2028	396,683	-
Thereafter	439,007	-
	2,369,157	129,600
Less: amount representing interest	(437,156)	(15,790)
Total	<u>\$ 1,932,001</u>	<u>\$ 113,810</u>

Reported as of June 30, 2023	Operating Leases	Financing Leases
Current portion of lease liability	\$ 316,518	\$ 27,521
Lease liabilities, net of current portion	1,615,483	86,289
Total	<u>\$ 1,932,001</u>	<u>\$ 113,810</u>

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2023 and 2022

NOTE M - LEASES (CONTINUED)

The components of lease expense were as follows:

	<u>Year Ended June 30, 2023</u>
Finance lease costs:	
Amortization of right-of-use assets	\$ 29,366
Interest on lease liabilities	<u>8,880</u>
Total finance lease cost	38,246
Operating lease cost	<u>471,836</u>
Total lease cost	<u><u>\$ 510,082</u></u>

Included in operating lease costs are variable lease costs of \$25,467 for the year ended June 30, 2023.

	<u>Year Ended June 30, 2023</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 430,335
Financing cash flows from finance lease	\$ 25,680
Operating cash flows from finance lease	\$ 8,880

	<u>Year Ended June 30, 2023</u>
Weighted-average remaining lease terms in years - finance lease	3.67
Weighted-average remaining lease terms in years - operating lease	5.32
Weighted-average discount rate - finance lease	0.36%
Weighted-average discount rate - operating lease	6.58%

Total office lease expense reported under these leases amounted to \$536,455 for the year ended June 30, 2022. Total equipment lease expense reported under these leases amounted to \$36,426 for the year ended June 30, 2022 and is included in maintenance expense on the statements of functional expenses. As of June 30, 2022, deferred rent related to these leases totaled \$116,088.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements June 30, 2023 and 2022

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 had suspended the discretionary contributions on July 1, 2021, and resumed contributions in July 2022. The Organization's contribution was \$151,195 and \$21,617 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022, the Organization has recorded \$0 and \$67,098, respectively, (for a cumulative total of \$19,499,730) of revenue under this U.S. Department of Education grant.

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, 2023 and 2022, the Organization has recorded \$739,365 and \$762,529, respectively, (for a cumulative total of \$3,855,135) of revenue under this U.S. Department of Education grant. The amounts exclude match revenues of \$60,642 and \$229,828 (for a cumulative total of \$439,842) for the years ended June 30, 2023 and 2022, 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, 2023, two government grants accounted for approximately 13% of total revenue and two school district contracts accounted for approximately 30% of total revenue. These sources comprised \$66,326 of contributions receivable – government grants and \$837,384 of accounts receivable as of June 30, 2023.

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.

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.

CHILDREN'S LITERACY INITIATIVE

Notes to Financial Statements
June 30, 2023 and 2022

NOTE Q - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 29, 2023, which is the date the financial statements were available to be issued.