LEARNING ALLY, INC.

(A Not-For-Profit Organization)

FINANCIAL STATEMENTS
With Reporting Requirements for
Uniform Guidance

JUNE 30, 2020 and 2019
(with supplementary information)

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Learning Ally, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Learning Ally, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Learning Ally, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters - Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), State of Florida Chapter 10.650, *Rules of Auditor General Florida Single Audit Act,* and State of New Jersey OMB Circular Letter 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal and State Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2020 on our consideration of Learning Ally, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Learning Ally, Inc.'s internal control over financial reporting and compliance.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
November 11, 2020

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statements of Financial Position

	June 30, 2020	June 30, 2019
ASSETS		
Cash and cash equivalents	**$ 1,712,783**	$ 887,752
Grants and other receivables	**2,976,713**	1,246,797
Contributions receivable, net	**1,816,914**	2,385,380
Investments	**17,645,612**	18,224,663
Prepaid expenses and other assets	**552,875**	552,202
Split-interest agreements and other arrangements	**104,501**	197,781
Beneficial interest in perpetual trusts	**4,651,047**	4,598,416
Property and equipment, net	**2,513,862**	2,886,415
Total assets	**$ 31,974,307**	$ 30,979,406
LIABILITIES		
Accounts payable and accrued expenses	**$ 1,631,704**	$ 2,011,679
Deferred revenue	**5,646,313**	4,019,901
Paycheck Protection Program loan payable	**2,082,100**	-
Obligations under capital lease	**11,115**	76,011
Total liabilities	**9,371,232**	6,107,591
Commitments		
NET ASSETS		
Without donor restrictions	**1,736,085**	2,359,800
With donor restrictions:		
Purpose restrictions	**7,919,406**	9,617,857
Perpetual restrictions	**12,947,584**	12,894,158
	20,866,990	22,512,015
Total net assets	**22,603,075**	24,871,815
Total liabilities and net assets	**$ 31,974,307**	$ 30,979,406

See notes to financial statements.

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose	Perpetual	
Operating revenue and other support:				
Contributions, private grants and legacies	$ 1,957,864	$ 1,510,453	$ -	$ 3,468,317
Government grants and contracts	4,510,687	-	-	4,510,687
Donated services, goods and rent	5,499,604	-	-	5,499,604
Membership fees and services, net	9,118,680	-	-	9,118,680
Interest and dividends, net	207,515	(2,852)	-	204,663
Other revenue	95,057	-	-	95,057
	21,389,407	1,507,601	-	22,897,008
Net assets released from restrictions for appropriations from endowment net assets	2,071,900	(2,071,900)	-	-
Net assets released from restrictions - other	1,976,122	(1,976,122)	-	-
Total operating revenue and other support	25,437,429	(2,540,421)	-	22,897,008
Operating expenses:				
Program services:				
Educational solutions	10,472,283	-	-	10,472,283
Services coordination	10,971,112	-	-	10,971,112
Total program services	21,443,395	-	-	21,443,395
Supporting services:				
Administration	3,334,820	-	-	3,334,820
Fundraising	1,374,317	-	-	1,374,317
Total supporting services	4,709,137	-	-	4,709,137
Total operating expenses	26,152,532	-	-	26,152,532
Deficiency of operating revenue and other support over operating expenses before non-operating activities	(715,103)	(2,540,421)	-	(3,255,524)
Non-operating activities:				
Net unrealized and realized gains on investments and perpetual trusts	91,388	851,863	53,426	996,677
Change in value of split-interest agreements	-	(9,893)	-	(9,893)
Change in net assets	(623,715)	(1,698,451)	53,426	(2,268,740)
Net assets, beginning of the year	2,359,800	9,617,857	12,894,158	24,871,815
Net assets, end of year	$ 1,736,085	$ 7,919,406	$ 12,947,584	$ 22,603,075

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose	Perpetual	
Operating revenue and other support:				
Contributions, private grants and legacies	$ 1,457,388	$ 2,722,736	$ 1,597,447	$ 5,777,571
Government grants and contracts	3,664,943	-	-	3,664,943
Donated services, goods and rent	4,806,865	-	-	4,806,865
Membership fees and services, net	7,655,661	-	-	7,655,661
Interest and dividends, net	352,827	1,115,868	-	1,468,695
Other revenue	27,502	-	-	27,502
	17,965,186	3,838,604	1,597,447	23,401,237
Net assets released from restrictions - other	3,836,740	(3,836,740)	-	-
Total operating revenue and other support	21,801,926	1,864	1,597,447	23,401,237
Operating expenses:				
Program services:				
Educational solutions	10,017,368	-	-	10,017,368
Services coordination	9,582,304	-	-	9,582,304
Total program services	19,599,672	-	-	19,599,672
Supporting services:				
Administration	3,147,257	-	-	3,147,257
Fundraising	1,547,965	-	-	1,547,965
Total supporting services	4,695,222	-	-	4,695,222
Total operating expenses	24,294,894	-	-	24,294,894
(Deficiency) excess of operating revenue and other support over operating expenses before non-operating activities	(2,492,968)	1,864	1,597,447	(893,657)
Non-operating activities:				
Gain on disposition of property and equipment	4,529	-	-	4,529
Net unrealized and realized losses on investments and perpetual trusts	(388,133)	(446,956)	(29,531)	(864,620)
Change in value of split-interest agreements	-	13,282	-	13,282
Change in net assets	(2,876,572)	(431,810)	1,567,916	(1,740,466)
Net assets, beginning of the year	5,236,372	10,049,667	11,326,242	26,612,281
Net assets, end of year	$ 2,359,800	$ 9,617,857	$ 12,894,158	$ 24,871,815

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services			Supporting Services		
	Educational Solutions	Services Coordination	Total Program Services	Administration	Fundraising	Total
Salaries	$ 2,936,740	$ 7,211,149	$ 10,147,889	$ 1,540,430	$ 802,309	$ 12,490,628
Employee benefits	707,374	1,360,209	2,067,583	291,440	124,728	2,483,751
Total employee compensation	3,644,114	8,571,358	12,215,472	1,831,870	927,037	14,974,379
Volunteer services	5,427,203	-	5,427,203	-	-	5,427,203
Professional fees	116,550	1,162,433	1,278,983	380,919	399,413	2,059,315
Data processing	66,198	233,982	300,180	365,920	14,114	680,214
Rent and utilities	496,170	531	496,701	-	-	496,701
Travel and conferences	22,271	302,986	325,257	49,033	10,033	384,323
Maintenance and repairs	175,413	892	176,305	142,515	-	318,820
Staff recruitment and training	36,448	151,105	187,553	129,280	-	316,833
Marketing	1,018	257,405	258,423	674	729	259,826
Production supplies	206,292	-	206,292	-	-	206,292
Telephone	31,489	1,590	33,079	118,897	289	152,265
Other	6,385	10,765	17,150	74,779	-	91,929
Books and publications	29,492	28,596	58,088	16,291	16,389	90,768
Bad debts	-	-	-	84,504	-	84,504
Awards and grants	-	81,000	81,000	-	-	81,000
Office supplies	23,342	6,054	29,396	9,877	1,447	40,720
Postage and packaging	8,397	12,126	20,523	2,186	4,350	27,059
Interest	-	-	-	4,461	-	4,461
Expenses before depreciation	10,290,782	10,820,823	21,111,605	3,211,206	1,373,801	25,696,612
Depreciation	181,501	150,289	331,790	123,614	516	455,920
Total expenses	$ 10,472,283	$ 10,971,112	$ 21,443,395	$ 3,334,820	$ 1,374,317	$ 26,152,532

See notes to financial statements.

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services			Supporting Services		
	Educational Solutions	Services Coordination	Total Program Services	Administration	Fundraising	Total
Salaries	$ 3,106,920	$ 5,879,806	$ 8,986,726	$ 1,644,831	$ 812,319	$ 11,443,876
Employee benefits	684,426	1,257,619	1,942,045	294,396	147,574	2,384,015
Total employee compensation	3,791,346	7,137,425	10,928,771	1,939,227	959,893	13,827,891
Volunteer services	4,724,711	-	4,724,711	-	-	4,724,711
Professional fees	55,831	900,493	956,324	307,318	391,748	1,655,390
Staff recruitment and training	111,878	466,808	578,686	56,663	93,000	728,349
Data processing	61,041	174,026	235,067	366,084	26,239	627,390
Rent and utilities	545,669	-	545,669	-	-	545,669
Travel and conferences	52,351	311,579	363,930	76,487	37,745	478,162
Marketing	1,642	266,237	267,879	2,199	3,492	273,570
Maintenance and repairs	160,227	-	160,227	61,539	-	221,766
Production supplies	188,133	-	188,133	-	-	188,133
Telephone	27,369	2,039	29,408	108,288	361	138,057
Other	7,292	35,004	42,296	84,566	1,296	128,158
Books and publications	43,275	24,815	68,090	10,643	24,678	103,411
Awards and grants	-	96,000	96,000	-	-	96,000
Office supplies	31,328	7,412	38,740	8,152	1,450	48,342
Postage and packaging	24,679	10,249	34,928	2,291	7,377	44,596
Interest	-	-	-	5,209	-	5,209
Expenses before depreciation	9,826,772	9,432,087	19,258,859	3,028,666	1,547,279	23,834,804
Depreciation	190,596	150,217	340,813	118,591	686	460,090
Total expenses	$ 10,017,368	$ 9,582,304	$ 19,599,672	$ 3,147,257	$ 1,547,965	$ 24,294,894

See notes to financial statements.

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Statements of Cash Flows

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash flows from operating activities:		
Change in net assets	**$ (2,268,740)**	$ (1,740,466)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	**455,920**	460,090
Change in discount and allowance related to contributions receivable	**38,221**	(53,096)
Net gain on disposition of property and equipment	**-**	(4,529)
Net unrealized and realized (gains) losses on investments and perpetual trusts	**(996,677)**	864,620
Donated securities	**(23,883)**	(29,921)
Proceeds from sale of donated securities	**43,648**	28,769
Increase in beneficial interest in perpetual trusts held by others	**-**	(1,570,295)
Contribution revenue permanently restricted for long-term investment	**-**	(27,152)
Change in assets and liabilities:		
Grants and other receivables	**(1,729,916)**	(629,038)
Contributions receivable	**530,245**	18,281
Prepaid expenses and other assets	**(673)**	(23,987)
Split-interest agreements and other arrangements	**93,280**	814,898
Accounts payable and accrued expenses	**(379,975)**	682,015
Deferred revenue	**1,626,412**	753,784
Net cash used in operating activities	**(2,612,138)**	(456,027)
Cash flows from investing activities:		
Purchases of investments	**(62,899)**	(1,270,338)
Proceeds from sales of investments	**1,566,231**	1,052,425
Purchase of property and equipment	**(83,367)**	(124,650)
Proceeds from disposition of property and equipment	**-**	4,529
Net cash provided by (used in) investing activities	**1,419,965**	(338,034)
Cash flows from financing activities:		
Principal payments on capital lease	**(64,896)**	(61,894)
Proceeds from Paycheck Protection Program loan payable	**2,082,100**	-
Contribution revenue permanently restricted for long-term investment	**-**	27,152
Net cash provided by (used in) financing activities	**2,017,204**	(34,742)
Net increase (decrease) in cash and cash equivalents	**825,031**	(828,802)
Cash and cash equivalents, beginning of year	**887,752**	1,716,554
Cash and cash equivalents, end of year	**$ 1,712,783**	$ 887,752
Supplemental disclosure of cash flow information:		
Interest paid	**$ 4,461**	$ 5,209

See notes to financial statements.

NOTE A - ORGANIZATION

Learning Ally, Inc. (the "Organization") is a leading nonprofit education solutions organization dedicated to equipping educators with proven solutions that help struggling learners reach their potential. The Organization's range of literacy-focused offerings for students Pre-K to 12th grade and catalog of professional learning allow it to reach 200,000 educators across the U.S. The Organization's educational services include The Learning Ally Audiobook Solution, which is its cornerstone award-winning reading accommodation available in 18,500 schools to help students with reading deficits succeed. Composed of high quality, human-read audiobooks and a suite of teacher resources to monitor and support student progress, it is designed to turn struggling readers into engaged learners. Learning Ally, Inc.'s services coordination program is designed to empower educators to help struggling students become engaged, independent readers through deeper understanding of research and best practices around reading, job-embedded action planning and coaching, and community tools that support the transformation of daily practice. Learning Ally, Inc. is partially funded by grants from federal, state and local education programs, and the generous contributions of individuals, foundations and corporations.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Adoption of new accounting pronouncement:

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves guidance concerning: 1) the determination whether a transaction should be accounted for as an exchange transaction or as a contribution, and 2) whether a contribution received is conditional. ASU 2018-08 should be applied on a modified prospective basis. The Organization has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements. There was no effect on net assets in connection with the implementation of this ASU.

[2] Basis of presentation:

The accompanying financial statements, which are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

<u>Net assets with donor restrictions: Perpetual restrictions</u> - net assets subject to donor- (or certain grantor-) imposed restrictions that they be maintained in perpetuity by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments without donor restrictions or for specific purposes.

<u>Net assets with donor restrictions: Purpose restrictions</u> - net assets subject to donor- (or certain grantor-) imposed stipulations that will be met either by actions of the Organization, or the passage of time as specified by donor and earnings derived from donor-restricted endowments not yet appropriated for expenditure by the Board of Directors. Donor-imposed 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.

<u>Net assets without donor restrictions</u> - net assets not subject to donor- (or certain grantor-) imposed restrictions and available for use in general operations.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Basis of presentation: (continued)

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor- or grantor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is purpose or perpetual restricted by explicit donor stipulations or by law. Expirations of purpose restrictions are reported as net assets released from restrictions on the statements of activities.

[3] Government grants and contracts:

Contribution revenue from federal and state grants is recognized to the extent that qualifying reimbursable expenses have been incurred under the terms of the respective agreements or performance measures as stipulated in the grants have been met. Contribution revenue is recognized over time as each performance requirement is achieved or as allowable expenditures are incurred. Amounts received in advance are deferred until such time that the underlying obligation is satisfied by Learning Ally, Inc. As of June 30, 2020 and 2019, the Organization does not have a refundable advance.

[4] Membership fees and services:

Service revenue is recorded when the service is provided to the customer. Membership fees are recognized ratably over the contract period. Membership fees and services are recorded net of promotional discounts and hardship waivers totaling $1,833,694 and $845,941 for the years ended June 30, 2020 and 2019, respectively. Membership fees collected, which relate to the following fiscal year, are deferred until earned and are recorded as deferred revenue on the statements of financial position.

[5] Contributions, private grants and legacies:

Contributions, including unconditional promises to give, private grants and legacies are recognized as revenues in the period received. These donations 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 donations are considered to be contributions to the Organization. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Unconditional promises to give (pledges) that are expected to be collected in excess of one year are recorded net of an appropriate discount (using a credit-adjusted rate) to reflect the present value of expected future cash flows. Allowances are recorded for estimated uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors. Contributions receivable are written off in the period in which they are deemed uncollectible and expensed in the net asset category where the related receivable resides.

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. There were no conditional promises to give outstanding as of June 30, 2020 and 2019.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Split-interest agreements and other arrangements:

The Organization recognizes contribution revenue and related asset when an irrevocable split-interest agreement naming it as trustee and beneficiary is executed. When an unrelated third party acts as trustee or fiscal agent for the split-interest agreement, the Organization recognizes contribution income when it is notified of the agreement's existence, the Organization being a beneficiary and all relevant information is made known to it. The Organization's split-interest agreements are managed by third-party trustees, in accordance with stipulations of the donors who established them.

a) Beneficial interest in perpetual trusts held by others:

A perpetual trust held by a third party is an arrangement in which the donor establishes and funds a trust that is administered by an outside third party. Under the terms of the trust, the Organization has the right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in the trust. The Organization recognizes its beneficial interest in perpetual trusts at the fair value of its interest of the underlying assets. The trusts are recorded as net assets with donor restrictions – perpetual restrictions, and the changes in value of the trusts have been reported in the statements of activities.

b) Beneficial interest in other charitable trusts:

Beneficial interests in other charitable trusts are arrangements in which the donor establishes and funds a trust that is administered by an outside third party. Under the terms of the trust, the Organization has the right to receive the income earned on its interest in the trust assets for a finite period of time and, in certain instances, the Organization is entitled to receive its interest in the trust assets upon the termination of the trust. The fair value of its interest in the trusts is computed at the present value (discount rates range from 3.16% to 5.77% at both June 30, 2020 and 2019) of the estimated future cash flows to be received from the trusts. The trusts are recorded as net assets with donor restrictions – purpose restrictions, and the changes in value of the trusts have been reported in the statements of activities.

[7] Release of restrictions on net assets held for acquisition of property and equipment:

Contributions of property and equipment without donor-imposed stipulations concerning the use of such long-lived assets are reported as revenues in net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment, pursuant to donor-imposed restrictions, are reported as revenues in net assets with donor restrictions – purpose restricted; the restrictions are considered satisfied at the time such acquired long-lived assets are placed in service.

[8] Functional allocation of expenses:

The costs of providing the program and supporting services of the Organization have been summarized on a functional basis on the accompanying statements of activities. The statements of functional expenses present the natural classification detail of expenses by function based on the duties and responsibilities of a position. The Organization employs the direct method to assign costs. The Organization designates staff and expenses to one of three categories: program services (either development/production of programs or implementation of programs), fundraising or administration. Compensation and related costs are directly assigned to either program services, fundraising or administration. Staff and related costs assigned to fundraising are not allocated to program services or administration. Administrative costs, such as administration support, are not allocated to program services or fundraising, except on a very limited basis when a specific benefit has been identified. In such a case the allocation is based on the time spent to enable that benefit.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Cash equivalents:

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, and are reported as part of cash and cash equivalents, except those amounts that are held for long-term investment.

[10] Paycheck Protection Program loan payable:

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

[11] 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

[12] Measure of operations:

"Excess/(deficiency) of operating revenue and other support over operating expenses before non-operating activities" represents all revenues generated to support the Organization's programs and solutions and all expenses that are integral to the development, implementation and support of the Organization's programs and solutions.

Non-operating activities include: (1) Gain (loss) on disposition of property and equipment, (2) net unrealized and realized gains and (losses) on investments and perpetual trusts, and (3) changes in value of split-interest agreements.

[13] Income taxes:

The Internal Revenue Service (the "IRS") has recognized Learning Ally, Inc. as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Management has analyzed the tax positions taken by the Organization and has concluded that as of June 30, 2020 and 2019, there are no uncertain tax positions taken or expected to be taken that would require the recognition of a liability or disclosure in the financial statements. The Organization recognizes accrued interest and penalties associated with uncertain tax provisions, if any. There were no income tax-related interest and penalties recorded for the years ended June 30, 2020 and 2019.

[14] Concentrations of risk:

The Organization maintains a significant investment portfolio, which includes money market funds, mutual funds, corporate stocks and fund of funds. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence on key individuals and nondisclosure of portfolio composition. The Organization regularly reviews the performance and risks associated with these investments. In addition, the Organization utilizes the services of an external investment consultant who continually monitors the individual investment fund performance, any changes in management at the investment fund or any other significant matters affecting the fund and advises the Organization of any such changes.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[14] Concentrations of risk: (continued)

The Organization maintains its cash and cash equivalents in various bank deposit accounts that may exceed federally insured limits at times. To minimize risk, the Organization places its cash accounts with high credit quality financial institutions. The Organization has not experienced, nor does it anticipate, nonperformance by these financial institutions.

[15] Upcoming accounting pronouncements:

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced revenue related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize all leases (with terms more than 12 months) at the commencement date the following: i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified lease term. The new lease guidance also simplifies the accounting for sale and leaseback transactions. Lessees will no longer be provided with a source of off-balance sheet financing.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*. This ASU permits private companies and not-for-profit organizations that have not yet applied the revenue recognition standard to do so for annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. For leases, the ASU provides an effective date deferral to private companies, private not-for-profit organizations and public not-for-profit organizations that have not yet issued (or made available) their financial statements reflecting the adoption of the guidance. It is intended to provide near-term relief for certain entities for whom the leases adoption is imminent. Under the ASU, private companies and private not-for-profit organizations may apply the new leases standard for fiscal years beginning after December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022. The Organization is currently evaluating the impact of these ASUs on its financial statements and related disclosures.

[16] Subsequent events:

The Organization evaluated subsequent events through November 11, 2020, the date these financial statements were available to be issued.

NOTE C - INVESTMENTS

Investments are stated at fair value. The fair value of all money market funds, mutual funds, and U.S. corporate stocks are based on quotations obtained from national securities exchanges as of the respective measurement date. The estimated fair value of the fund of funds is reported at the net asset value ("NAV") as reported by the Fund manager, which is reviewed by management for reasonableness. NAV is used as a practical expedient to estimate and report the fair value of the Organization's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount which differs from NAV. Interest and dividends and unrealized and realized gains and losses are reported in the statements of activities. Interest and dividends, net, consists of interest and dividend income less external and direct internal investment expenses. As of June 30, 2020 and 2019, the Organization had no specific plans or intentions to sell investments at amounts different than NAV. Because the fund of funds is not readily marketable, its estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed and the difference could be material.

Investments as of June 30, 2020 and 2019 consist of the following:

	2020	2019
Money market funds	**$ 53,698**	$ 90,616
Mutual funds	**276,623**	265,432
U.S. corporate stocks	**240,022**	211,942
Fund of funds	**17,075,269**	17,656,673
	$ 17,645,612	$ 18,224,663

NOTE D - FAIR VALUE HIERARCHY

Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. *Fair Value Measurements and Disclosures* defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants.

In determining fair value, the Organization uses various approaches, including market, income and/or cost approaches. The hierarchy 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 under *Fair Value Measurements and Disclosures* and the Organization's related types are described below:

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

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE D - FAIR VALUE HIERARCHY (CONTINUED)

	June 30, 2020			
	Total	**Level 1**	**Level 2**	**Level 3**
Money market funds	**$ 53,698**	**$ 53,698**	**$ -**	**$ -**
Mutual funds	**276,623**	**276,623**	**-**	**-**
U.S. corporate stocks	**240,022**	**240,022**	**-**	**-**
Fund of funds measured at NAV (A)	**17,075,269**	**-**	**-**	**-**
	17,645,612	**570,343**	**-**	**-**
Split-interest agreements and other arrangements	**104,501**	**-**	**-**	**104,501**
Beneficial interest in perpetual trusts	**4,651,047**	**-**	**-**	**4,651,047**
	$ 22,401,160	**$ 570,343**	**$ -**	**$ 4,755,548**

	June 30, 2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 90,616	$ 90,616	$ -	$ -
Mutual funds	265,432	265,432	-	-
U.S. corporate stocks	211,942	211,942	-	-
Fund of funds measured at NAV (A)	17,656,673	-	-	-
	18,224,663	567,990	-	-
Split-interest agreements and other arrangements	197,781	-	-	197,781
Beneficial interest in perpetual trusts	4,598,416	-	-	4,598,416
	$ 23,020,860	$ 567,990	$ -	$ 4,796,197

(A) Certain investments that are measured at fair value using NAV per share (or its equivalent) as the practical expedient have not been classified as Level 1, 2 or 3 in the fair value hierarchy. The fund of funds employs a globally diversified portfolio, which seeks to achieve total return, which exceeds inflation plus 5%. The fund has no unfunded commitments or liquidity restrictions as of June 30, 2020 and 2019.

NOTE D - FAIR VALUE HIERARCHY (CONTINUED)

The following tables present the Organization's activity for all Level 3 assets measured at fair value on an annual basis for the years ended June 30, 2020 and 2019:

	2020		
	Total Level 3	Beneficial Interest in Perpetual Trusts	Split-Interest Agreements and Other Arrangements
Balance, June 30, 2019	**$ 4,796,197**	**$ 4,598,416**	**$ 197,781**
Distributions	**(285,461)**	**(202,074)**	**(83,387)**
Change in value of split-interest agreements and other arrangements	**(9,893)**	**-**	**(9,893)**
Net realized and unrealized gain	**254,705**	**254,705**	**-**
Ending balance, June 30, 2020	**$ 4,755,548**	**$ 4,651,047**	**$ 104,501**

	2019		
	Total Level 3	Beneficial Interest in Perpetual Trusts	Split-Interest Agreements and Other Arrangements
Balance, June 30, 2018	$ 4,070,758	$ 3,058,079	$ 1,012,679
Additions	1,570,295	1,570,295	-
Distributions	(1,096,373)	(268,193)	(828,180)
Change in value of split-interest agreements and other arrangements	13,282	-	13,282
Net realized and unrealized gain	238,235	238,235	-
Ending balance, June 30, 2019	$ 4,796,197	$ 4,598,416	$ 197,781

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended June 30, 2020 and 2019, there were no transfers into or out of Levels 1, 2 or 3.

NOTE E - ENDOWMENT

The Organization's endowment consists of approximately 40 individual donor-restricted funds established for a variety of purposes.

[1] Interpretation of relevant law:

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (the "Act") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. The Organization classifies as net assets with donor restrictions – perpetual restrictions: (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment, and (c) accumulations to its permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Donor-restricted endowments not retained in perpetuity are classified as net assets with donor restrictions – purpose restrictions until such amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Organization and its donor-restriction endowment;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from endowment investments;
- Other resources of the Organization; and
- The investment policy of the Organization.

The following represents the Organization's endowment funds, by net asset category, as of June 30, 2020 and 2019:

	2020			
	Without Donor Restrictions	**With Donor Restrictions Purpose**	**With Donor Restrictions Perpetual**	**Total**
Donor-restricted endowment funds	**$ -**	**$ 4,741,804**	**$ 8,296,537**	**$ 13,038,341**

	2019			
	Without Donor Restrictions	**With Donor Restrictions Purpose**	**With Donor Restrictions Perpetual**	**Total**
Donor-restricted endowment funds	$ -	$ 5,976,342	$ 8,295,742	$ 14,272,084

Net assets with donor restrictions − perpetual includes $4,651,047 and $4,598,416, respectively, at June 30, 2020 and 2019, of perpetual trusts which are not reflected above as a component of perpetually restricted endowment funds.

NOTE E - ENDOWMENT (CONTINUED)

[1] Interpretation of relevant law: (continued)

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	2020			
	Without Donor Restrictions	With Donor Restrictions Purpose	With Donor Restrictions Perpetual	Total
Endowment net assets, at June 30, 2019	**$ -**	**$ 5,976,342**	**$ 8,295,742**	**$ 14,272,084**
Investment return:				
Investment loss, net of fees	**-**	**(6,348)**	**(5)**	**(6,353)**
Net appreciation (realized and unrealized)	**-**	**843,710**	**800**	**844,510**
Total investment return	**-**	**837,362**	**795**	**838,157**
Appropriation of endowment net assets for expenditures	**-**	**(2,071,900)**	**-**	**(2,071,900)**
Endowment net assets, at June 30, 2020	**$ -**	**$ 4,741,804**	**$ 8,296,537**	**$ 13,038,341**

	2019			
	Without Donor Restrictions	With Donor Restrictions Purpose	With Donor Restrictions Perpetual	Total
Endowment net assets, at June 30, 2018	$ -	$ 5,459,941	$ 8,268,163	$ 13,728,104
Investment return:				
Investment income, net of fees	-	969,514	799	970,313
Net depreciation (realized and unrealized)	-	(453,113)	(372)	(453,485)
Total investment return	-	516,401	427	516,828
Reclassification of endowment assets	-	-	27,152	27,152
Endowment net assets, at June 30, 2019	$ -	$ 5,976,342	$ 8,295,742	$ 14,272,084

NOTE E - ENDOWMENT (CONTINUED)

[1] Interpretation of relevant law: (continued)

Description of amounts classified as net assets with donor restrictions – perpetual restrictions and purpose restrictions (endowment only) for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Net Assets With Donor Perpetual Restrictions		
The portion of perpetual endowment funds that are required to be retained permanently by explicit donor stipulation	**$ 8,296,537**	$ 8,295,742
Total endowment funds classified as net assets with donor perpetual restrictions	**$ 8,296,537**	$ 8,295,742
Net Assets With Donor Purpose Restrictions		
The portion of endowment funds which must be appropriated for expenditure before use:		
Without purpose restrictions (see Note H)	**$ 480,176**	$ 663,177
With purpose restrictions (see Note H)	**4,261,628**	5,313,165
Total endowment funds classified as net assets with donor purpose restrictions	**$ 4,741,804**	$ 5,976,342

[2] Funds with deficiencies:

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. The Organization has determined to not spend from underwater endowments until such funds are fully recovered. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions – perpetual restrictions. This fund had an original gift value of $25,000 and $25,000, fair values of $12,753 and $11,959, and deficiencies of $12,247 and $13,041 as of June 30, 2020 and 2019, respectively. These deficiencies resulted primarily from unfavorable market fluctuations.

[3] Return objectives and risk parameters:

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to protect the original value of the gift. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a mix of relevant benchmarks, while assuming a moderate level of investment risk. The Organization expects its endowment fund, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

[4] Spending policy:

The Organization has a policy to allow for appropriation, a distribution each year of 5% of the endowment's rolling three-year average fair value. In establishing this policy, the Organization considered the long-term expected return on its endowment, mentioned above. There was no appropriation of funds during June 30, 2019. During the fiscal year 2020, due to Coronavirus, the Board of Trustees approved an appropriation of $2,071,900 from earnings of endowment net assets for expenditure.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. It is the Organization's policy to capitalize property and equipment over $1,000 and lesser amounts are expensed. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets and consists of the following as of June 30, 2020 and 2019:

	2020	2019	Depreciable Life
Land	**$ 856,510**	$ 856,510	
Buildings and improvements	**6,890,453**	6,963,789	10 - 40 years
Leasehold improvements	**-**	242,070	5 - 40 years
Recording and office equipment	**13,634,628**	14,062,679	3 - 10 years
	21,381,591	22,125,048	
Less: accumulated depreciation	**(18,867,729)**	(19,238,633)	
Property and equipment, net	**$ 2,513,862**	$ 2,886,415	

Depreciation expense was $455,920 and $460,090 for the years ended June 30, 2020 and 2019, respectively.

Property and equipment recorded under capital lease (see Note M) and related accumulated depreciation at June 30, 2020 was $298,160 and $283,252, respectively. Property and equipment recorded under capital lease and related accumulated depreciation at June 30, 2019 was $298,160 and $223,620, respectively. Depreciation expense for each of the years ended June 30, 2020 and 2019 was $59,632 for property and equipment recorded under capital 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, 2020 and 2019. In the opinion of management, there was no impairment during the years ended June 30, 2020 and 2019. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

NOTE G - DONATED SERVICES, GOODS AND RENT

The Organization is dependent on volunteer time to record new audiobooks. The recording of the audiobooks requires specialized skills which would have to be provided by paid professionals if not for the skilled volunteers. Due to this, the Organization has recorded donated services for the recording of the audiobooks. To properly recognize the significant role of volunteers and contributions of services in furtherance of the Organization's mission, the Organization has adopted procedures to both accumulate and measure the fair value of certain donated services related to the recording of books by professionals. Donated services for the Organization consist primarily of recording studio time incurred/contributed by volunteers, which has been valued at $81 and $88 per hour for the years ended June 30, 2020 and 2019, respectively. The rate is based upon periodic surveys of rates charged by professional readers for comparable work. Donated services have been recognized as revenue and expense on the statements of activities and have been allocated under the direct method to the functions benefited and included volunteer services of $5,427,203 and $4,724,711, and donated books and in-kind donations of $11,651 and $21,404, for the years ended June 30, 2020 and 2019, respectively.

NOTE G - DONATED SERVICES, GOODS AND RENT (CONTINUED)

The Organization also received the right to use office space in various locations, pursuant to executed lease agreements, at a cost that is below fair value for terms ranging from ten to forty years (see Note F). The Organization also received the right to use other donated office space on an annual renewable basis at amounts less than fair value during the years ended June 30, 2020 and 2019. The contributed rent recognized for all donated office space for each of the years ended June 30, 2020 and 2019 totaled $60,750 and was recognized as revenue and expense on the statements of activities.

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

[1] Purpose restricted net assets:

Purpose restricted net assets consist of gifts and other unexpended revenues and gains available for the following purposes as of June 30, 2020 and 2019:

	2020	**2019**
Subject to expenditure for a specified purpose:		
Blind and Visually-Impaired	**$ 633,048**	$ 671,715
Content development (audiobooks & learning solutions)	**444,317**	147,490
Implementation of educational solutions in specific schools	**-**	66,428
Other	**178,822**	172,721
	1,256,187	1,058,354
Subject to Organization's spending policy and appropriation:		
National Achievement Awards (scholarships)	**2,608,146**	2,295,045
Development, production and distribution of learning resources – nationally	**409,967**	1,917,763
Development, production and distribution of learning resources – regionally	**1,243,515**	1,100,357
With purpose restriction	**4,261,628**	5,313,165
General operations	**480,176**	663,177
	4,741,804	5,976,342
	5,997,991	7,034,696
Subject to the passage of time:		
Beneficial interest in split-interest agreements	**104,501**	197,781
Contributions which are unavailable for expenditure until received	**1,816,914**	2,385,380
Net assets with purpose restrictions	**$ 7,919,406**	$ 9,617,857

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

[2] Perpetual restricted net assets:

Perpetual restricted net assets consist of beneficial interests in perpetual trusts and endowment gifts from donors with donor specified restrictions that the principal be maintained in perpetuity and the income is used primarily for development, production and distribution of learning resources, National Achievement Awards or general purposes. Perpetual restricted net assets are as follows as of June 30, 2020 and 2019:

	2020	2019
National Achievement Awards (scholarships)	**$ 2,390,601**	$ 2,390,601
Development, production and distribution of learning resources – nationally	**1,850,448**	1,849,653
Development, production and distribution of learning resources – regionally	**1,052,719**	1,052,719
With purpose restriction	**5,293,768**	5,292,973
General operations	**3,002,769**	3,002,769
Endowment funds required to be retained	**8,296,537**	8,295,742
Beneficial interest in charitable trusts held by others	**4,651,047**	4,598,416
Net assets with perpetual restrictions	**$ 12,947,584**	$ 12,894,158

[3] Released from purpose restricted net assets:

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purpose or by the passage of time or other events specified by the donors as follows for the years ended June 30, 2020 and 2019:

	2020	2019
Satisfaction of purpose restrictions:		
Content development (audiobooks & learning solutions)	**$ 829,339**	$ 899,019
Blind and Visually-Impaired	**416,267**	407,725
Implementation of educational solutions in specific schools	**121,858**	117,794
Subsidizing of individual memberships	**8,952**	25,220
	1,376,416	1,449,758
Earnings on donor-restricted endowments:		
Appropriated for expenditure by Board	**2,071,900**	-
Distributions (proceeds are not restricted by donors):		
Beneficial interest in split-interest agreements	**83,387**	828,180
Expiration of time restrictions:		
Payments on contributions receivable	**516,319**	1,558,802
Net assets released from donor restrictions	**$ 4,048,022**	$ 3,836,740

NOTE I - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of unconditional promises to give and are expected to be received as follows as of June 30, 2020 and 2019:

	2020	2019
Less than one year	$ 527,470	$ 832,715
One to five years	-	225,000
More than five years	1,510,000	1,510,000
	2,037,470	2,567,715
Less:		
Allowance for uncollectible promises	(17,726)	(7,326)
Present value discount (3.09% to 5.60% in 2020 and 2019)	(202,830)	(175,009)
Contributions receivable, net	$ 1,816,914	$ 2,385,380

NOTE J - RETIREMENT PLANS

The Organization implemented the Learning Ally 401(k) Plan (the "LA Plan") effective January 1, 2014. Employees who meet the eligibility requirements can make contributions to the LA Plan upon hire, and such contributions vest immediately. Employees are automatically enrolled in the LA Plan at a 3% deferral rate once eligibility requirements are satisfied, but are also given the option to opt-out of the plan. The Organization may make matching contributions, at its discretion, on a uniform basis, for all participants. Discretionary contributions made on behalf of employees vest over time.

The Organization determined discretionary contributions of $80,598 and $202,479, respectively, for the years ended June 30, 2020 and 2019 be made.

NOTE K - PAYMENT PROTECTION PROGRAM (PPP) LOAN PAYABLE

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). One component of that Act was the PPP under the auspices of the SBA. On April 16, 2020, the Organization received a $2,082,100 PPP loan. Neither principle nor interest is due for a six-month deferral period through October 2020. This loan may be forgiven subject to bank approval in accordance with SBA guidelines. Any outstanding principle of the loan that is not forgiven under the PPP Loan program at the end of the six-month deferral period will convert to a term loan with an interest rate of 1% payable in equal installments of principal and interest over the next eighteen months, beginning in November 2020. The loan matures on April 16, 2022. The Organization is in the process of applying for forgiveness. Until determination of forgiveness, the scheduled future principal maturities as of June 30, 2020 are as follows:

Year Ending June 30,	Amount
2021	$ 925,378
2022	1,156,722
	$ 2,082,100

NOTE L - COMMITMENTS AND CONTINGENCIES

[1] Commitments:

The Organization is obligated under several service contracts and operating leases for equipment that expire at various dates through 2024. The approximate future minimum annual payments due under noncancelable service contracts and operating leases are as follows:

Year Ending June 30,	Amount
2021	$ 745,000
2022	262,000
2023	11,000
2024	3,000
Total	$ 1,021,000

The estimated sum of rental payments to be made over the life of all operating office leases is being allocated on a straight-line basis over the entire lease period and is recognized as periodic rent expense. Deferred rent, representing the difference between the straight-line amounts recorded as expense and the amounts paid, is $0 and $10,772, respectively, as of June 30, 2020 and 2019, and is included in accounts payable and accrued expenses in the statements of financial position. Total rent expense for all operating office leases, inclusive of amounts for donated space, approximated $189,000 and $230,000 for the years ended June 30, 2020 and 2019, respectively.

[2] Litigation:

The Organization is a party to litigation and other claims in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position, changes in net assets or cash flows of the Organization.

[3] Coronavirus:

The extent of the impact of the coronavirus ("COVID-19") outbreak on the financial performance of the Organization will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions and the impact of COVID-19 on the financial markets and the overall economy, all of which are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are affected for an extended period, the Organization may be materially adversely affected.

NOTE M - CAPITAL LEASE OBLIGATION

In 2016, the Organization entered into a capital lease for property and equipment expiring on July 31, 2020. The following is a schedule, by year, of future minimum lease payments under capital lease obligations, together with the present value of the net minimum lease payments, as of June 30, 2020:

Year Ending June 30,	Amount
2021	$ 11,184
Total minimum lease payments	11,184
Less: amount representing interest	(69)
Present value on minimum lease payments	$ 11,115

NOTE N - GRANTS AND OTHER RECEIVABLES

Grants and other receivables consist of the following at June 30, 2020 and 2019:

	2020	2019
Government grants	**$ 516,362**	$ 103,193
Customer and other receivables	**2,460,351**	1,143,604
Grants and other receivables	**$ 2,976,713**	$ 1,246,797

NOTE O - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization monitors its liquidity by forecasting its cash needs over the next year relative to cash expected to be generated based on the Organization's operating plan and budget. This forecast is revised monthly based on current trends and circumstances not anticipated in the original budget. Revision, if necessary, to the operating plan are implemented to ensure cash from operations is within the range of break-even to plus/minus $2 million.

Cash expected to be generated is reasonably predictable given the source is from several government grants which have been in place for a number of years, a membership base with a renewal rate in the mid-to-high 80%, and a core number of foundations and donors that have contributed to the Organization over a number of years.

In the event the Organization would need to rely on its reserves, the components of its investments at June 30, 2020 and 2019, without donor restrictions was approximately $4.4 million and $3.8 million, respectively. The Organization's total investment balance at June 30, 2020 and 2019 was approximately $17.6 million and $18.2 million, respectively, of which $8.3 million and $8.3 million, respectively, is permanently restricted by donors, $4.7 million and $6.0 million, respectively, is available upon the Organization's Board appropriating funds and $4.4 million and $3.8 million, respectively, is without donor restrictions.

NOTE O - LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

As of June 30, 2020 and 2019, the Organization's cash and cash equivalents, plus the component of its investments without donor restrictions relative to its payables and current obligations, including capital lease, commitments through 2024 and PPP loan, but excluding deferred revenue, was 1.29 to 1 and 1.8 to 1, respectively. Excluding the PPP loan, the June 30, 2020 ratio was 2.25 to 1. In addition, if needed, $4.7 million is available for development, production and distribution of learning resources, National Achievement Awards or unrestricted purposes, upon the Organization's Board appropriating such funds as of June 30, 2020.

Financial assets available for general expenditures within one year of the statements of financial position as of June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	**$ 1,712,783**	$ 887,752
Grants and other receivables expected to be collected that are not restricted	**1,760,842**	998,187
Contributions receivable expected to be collected that are not restricted	**494,744**	517,994
Investments without donor restrictions	**4,402,701**	3,756,235
Total	**$ 8,371,070**	$ 6,160,168

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

To the Board of Directors of
Learning Ally, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Learning Ally, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

EISNERAMPER

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
November 11, 2020

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, STATE OF FLORIDA CHAPTER 10.650, *RULES OF AUDITOR GENERAL FLORIDA SINGLE AUDIT ACT*, AND STATE OF NEW JERSEY OMB CIRCULAR LETTER 15-08

To the Board of Directors of
Learning Ally, Inc.

Report on Compliance for Each Major Federal and State Program

We have audited Learning Ally, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs, and the Rules of the State of Florida Governor's *State Projects Compliance Supplement* and State of New Jersey OMB Circular Letter 15-08, *Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, that could have a direct and material effect on each of the Organization's major state programs for the year ended June 30, 2020. The Organization's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), State of Florida Chapter 10.650, *Rules of Auditor General Florida Single Audit Act,* and State of New Jersey OMB Circular Letter 15-08, *Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, Uniform Guidance, the Florida Single Audit Act and State of New Jersey OMB Circular Letter 15-08 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

EISNERAMPER

Opinion on Each Major Federal and State Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, the Florida Single Audit Act and State of New Jersey OMB Circular Letter 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance, the Florida Single Audit Act and State of New Jersey OMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
November 11, 2020

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
– Material weakness(es) identified?	No
– Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
– Noncompliance material to financial statements noted?	No
Federal and State Awards:	
Internal control over major programs:	
– Material weakness(es) identified?	No
– Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditors' report issued on compliance for the major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a), State of Florida Auditor General Rule 10.650 or State of New Jersey OMB Circular Letter 15-08	No

Identification of major programs:

Federal/State Grantor/Program Title	Federal CFDA or State Grant or CFSA Number
Federal:	
U.S. Department of Education:	
Pass-through from the Texas Education Agency – Special Education Grants to States (Educational Outreach Program)	84.027
U.S. Department of Education:	
Pass-through from the New Jersey Department of Education – Special Education Grants to States	84.027A
State of New Jersey:	
Governor's Literacy Initiative Program	20-100-034-5063-288
State of Florida:	CSFA 48.066
Florida Department of Education – Learning through Listening	780-95550-0QL0I

The dollar threshold used to distinguish between type A and type B programs was $750,000 for Federal and State awards for the year ended June 30, 2020.

Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None noted.

Section III - Federal and State Award Findings and Questioned Costs

None noted.

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2020

Federal/State Grantor or Pass-Through Grantor/Program Title	Pass-Through Grantor Number	Federal CFDA or State Grant Number	Total Expenditures
Federal Awards:			
U.S. Department of Education			
Pass-through from the New Jersey Department of Education – Special Education Grants to States	19-100-034-5065-086-HRID-6130-2009 IDEA	84.027A	**$ 148,707**
Pass-through from the New Jersey Department of Education – Special Education Grants to States (Governor's Literacy Initiative Program)	19-100-034-5065-086-HRID-6130-2009 IDEA	84.027A	**145,000**
Pass-through from the Texas Education Agency – Special Education Grants to States (Educational Outreach Program)	3455/38194	84.027	**5,847**
Pass-through from the Texas Education Agency – Special Education Grants to States (Educational Outreach Program)	4007/39368	84.027	**1,493,401**
Total Expenditures of Federal Awards			**$ 1,792,954**
State of Florida Award:			
Florida Department of Education Learning through Listening	N/A	CSFA 48.066 780-95550-0QL01	**$ 1,241,704**
State of Illinois Award:			
Educational Outreach Program	N/A	2020-3999-BD-65-108-8910-51	**846,000**
State of New Jersey Awards:			
Governor's Literacy Initiative Program Grant period: July 1, 2020 – June 30, 2020 Grant award: $125,000	N/A	20-100-034-5063-288	**125,000**
State of Massachusetts Award:			
Educational Outreach Program	N/A	19CT48LRNALLY 19SEPAC	**199,418**
State of Minnesota Award:			
Educational Outreach Program	N/A	E3701-3000021935	**4,914**
State of Indiana Award:			
Educational Outreach Program	N/A	11372	**82,400**
State of North Carolina Award:			
Educational Outreach Program	N/A	NC10447566	**185,500**

LEARNING ALLY, INC.
(A Not-for-Profit Organization)

Schedule of Expenditures of Federal and State Awards (continued)
Year Ended June 30, 2020

Federal/State Grantor or Pass-Through Grantor/Program Title	Pass-Through Grantor Number	Federal CFDA or State Grant Number	Total Expenditures
State of Virginia Awards:			
Special Education Program	N/A	EP2936193	$ 22,931
Special Education Program	N/A	EP3103292	72,394
Total Expenditures of State Awards			**$ 2,780,261**

Notes to Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2020

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the grant activity of Learning Ally, Inc. (the "Organization") and is presented on the accrual basis of accounting for the year ended June 30, 2020. The information on this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations, as well as those of the respective states listed on the schedule of expenditures of federal and state awards (see pages 33 and 34), and is not a required part of the basic financial statements. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - INDIRECT COST RATE

The Organization has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance, Rules of the State of Florida Auditor General and State of New Jersey OMB Circular Letter 15-08.