# Reading Partners

Financial Statements

June 30, 2021 with summarized
comparative totals for 2020

## INDEX TO FINANCIAL STATEMENTS

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors
Reading Partners

**Report on the Financial Statements**

We have audited the accompanying financial statements of Reading Partners (the "Organization"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reading Partners as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Report on Summarized Comparative Information*

We have previously audited the Reading Partners 2020 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 22, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**BAKER TILLY US, LLP**

Baker Tilly US, LLP

San Francisco, California
October 25, 2021

**READING PARTNERS**
**STATEMENT OF FINANCIAL POSITION**
**June 30, 2021 with Summarized Comparative Totals for 2020**

**ASSETS**

| | 2021 | 2020 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 11,362,782 | $ 7,000,911 |
| Receivables | | |
| Accounts and grants | 255,000 | 122,659 |
| Fee for service contracts | 438,195 | 355,250 |
| Government contracts | 537,104 | 1,110,561 |
| Pledges - net | 4,179,699 | 4,145,758 |
| Donated rent | 43,756 | 73,818 |
| Prepaid expenses | 538,570 | 485,957 |
| Other assets | 9,064 | 9,017 |
| Total current assets | 17,364,170 | 13,303,931 |
| Pledges receivable - long-term - net | 368,717 | 1,447,143 |
| Donated rent receivable - long-term | - | 43,756 |
| Property and equipment - net | 91,611 | 138,850 |
| Deposits | 80,409 | 141,854 |
| Total assets | $ 17,904,907 | $ 15,075,534 |

**LIABILITIES AND NET ASSETS**

| | 2021 | 2020 |
|---|---|---|
| **Liabilities** | | |
| Accounts payable | $ 227,141 | $ 239,225 |
| Accrued liabilities | 1,679,788 | 1,518,969 |
| Deferred revenue - event income | 24,166 | - |
| Deferred revenue - fee for service | 58,169 | 115,719 |
| Deferred rent | 42,085 | 187,624 |
| Paycheck Protection Program loan - current | 509,947 | - |
| Total current liabilities | 2,541,296 | 2,061,537 |
| Paycheck Protection Program loan - net of current portion | 1,428,925 | 3,070,000 |
| Total liabilities | 3,970,221 | 5,131,537 |
| **Net Assets** | | |
| Without donor restrictions | 7,564,941 | 2,678,319 |
| With donor restrictions | 6,369,745 | 7,265,678 |
| Total net assets | 13,934,686 | 9,943,997 |
| Total liabilities and net assets | $ 17,904,907 | $ 15,075,534 |

 *The accompanying notes are an integral part of these financial statements.*

# READING PARTNERS
## STATEMENT OF ACTIVITIES
### For the Year Ended June 30, 2021 with Summarized Comparative Totals for 2020

| | 2021 | | | 2020 |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| **SUPPORT AND REVENUE** | | | | |
| Support | | | | |
| Foundation grants | $ 5,649,846 | $ 2,739,375 | $ 8,389,221 | $ 9,266,256 |
| Government contracts and grants | 7,374,776 | 30,875 | 7,405,651 | 6,446,891 |
| Individual gifts | 3,290,454 | 226,184 | 3,516,638 | 3,427,374 |
| Corporate contributions | 2,617,799 | 1,930,000 | 4,547,799 | 1,658,791 |
| Special event income - net of costs of direct benefit to donors of $85,874 | 502,643 | - | 502,643 | 265,856 |
| Contributions in-kind | 1,260,693 | - | 1,260,693 | 3,440,585 |
| Total support | 20,696,211 | 4,926,434 | 25,622,645 | 24,505,753 |
| Revenue | | | | |
| Tutoring service fees | 2,928,083 | - | 2,928,083 | 3,752,367 |
| Loan forgiveness income | 3,070,000 | - | 3,070,000 | - |
| Other income | 320,249 | - | 320,249 | 356,742 |
| Total revenue | 6,318,332 | - | 6,318,332 | 4,109,109 |
| Total support and revenue | 27,014,543 | 4,926,434 | 31,940,977 | 28,614,862 |
| Net assets released from restrictions | 5,822,367 | (5,822,367) | - | - |
| Total support and revenue | 32,836,910 | (895,933) | 31,940,977 | 28,614,862 |
| **EXPENSES** | | | | |
| Program services | 22,539,329 | - | 22,539,329 | 25,557,387 |
| Supporting services: | | | | |
| Management and general | 2,448,753 | - | 2,448,753 | 3,284,852 |
| Fundraising | 2,962,206 | - | 2,962,206 | 3,466,653 |
| Total expenses | 27,950,288 | - | 27,950,288 | 32,308,892 |
| **CHANGE IN NET ASSETS** | 4,886,622 | (895,933) | 3,990,689 | (3,694,030) |
| **NET ASSETS** - beginning of year | 2,678,319 | 7,265,678 | 9,943,997 | 13,638,027 |
| **NET ASSETS** - end of year | $ 7,564,941 | $ 6,369,745 | $ 13,934,686 | $ 9,943,997 |

 *The accompanying notes are an integral part of these financial statements.*

## READING PARTNERS
### STATEMENT OF FUNCTIONAL EXPENSES
### For the Year Ended June 30, 2021 with Summarized Comparative Totals for 2020

| | 2021 | | | | |
|---|---|---|---|---|---|
| | | Supporting Services | | | |
| | Program Services | Management and General | Fundraising | Total Expenses | 2020 Total Expenses |
| Salaries and related expenses: | | | | | |
| Salaries and wages | $ 15,074,589 | $ 1,157,589 | $ 2,144,157 | $ 18,376,335 | $ 19,543,817 |
| Employee benefits | 2,089,758 | 269,604 | 353,559 | 2,712,921 | 2,893,657 |
| Payroll taxes | 1,150,165 | 87,920 | 157,716 | 1,395,801 | 1,447,266 |
| Total salaries and related expenses | 18,314,512 | 1,515,113 | 2,655,432 | 22,485,057 | 23,884,740 |
| Occupancy | 869,603 | 462,187 | 155,682 | 1,487,472 | 1,661,166 |
| In-kind rent, services, and goods | 1,331,193 | - | - | 1,331,193 | 3,509,075 |
| Consultants and professional services | 340,662 | 155,991 | 56,434 | 553,087 | 777,488 |
| Membership, dues, and subscription | 355,685 | 113,348 | 41,238 | 510,271 | 458,851 |
| Books and supplies | 443,668 | 30,114 | 20,493 | 494,275 | 524,909 |
| Professional development | 78,713 | 41,787 | 2,841 | 123,341 | 78,547 |
| Travel | 13,607 | 1,452 | 3,604 | 18,663 | 183,016 |
| Other | 737,223 | 123,850 | 110,992 | 972,065 | 1,240,311 |
| Total expenses before depreciation | 22,484,866 | 2,443,842 | 3,046,716 | 27,975,424 | 32,318,103 |
| Depreciation | 54,463 | 4,911 | 1,364 | 60,738 | 99,703 |
| Total expenses by function | 22,539,329 | 2,448,753 | 3,048,080 | 28,036,162 | 32,417,806 |
| Less expenses netted against special event income on the statement of activities | - | - | (85,874) | (85,874) | (108,914) |
| Total expenses | $ 22,539,329 | $ 2,448,753 | $ 2,962,206 | $ 27,950,288 | $ 32,308,892 |



*The accompanying notes are an integral part of these financial statements.*

## READING PARTNERS
### STATEMENT OF CASH FLOWS
### For the Year Ended June 30, 2021 with Comparative Totals for 2020

| | 2021 | 2020 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 3,990,689 | $ (3,694,030) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 60,738 | 99,703 |
| Loan forgiveness | (3,070,000) | - |
| Changes in operating assets and liabilities | | |
| Receivables | 1,476,475 | 3,351,480 |
| Prepaid expenses | (52,613) | (121,982) |
| Other assets | (47) | (2,315) |
| Deposits | 61,445 | 3,700 |
| Accounts payable | (12,084) | (88,585) |
| Accrued liabilities | 160,819 | 106,833 |
| Deferred revenue | (33,384) | 34,719 |
| Deferred rent | (145,539) | (91,969) |
| **Net cash provided by (used in) operating activities** | 2,436,499 | (402,446) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (13,500) | (79,687) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from note payable - PPP Loan | 1,938,872 | 3,070,000 |
| **Net increase in cash and cash equivalents** | 4,361,871 | 2,587,867 |
| **CASH AND CASH EQUIVALENTS** - beginning of year | 7,000,911 | 4,413,044 |
| **CASH AND CASH EQUIVALENTS** - end of year | $ 11,362,782 | $ 7,000,911 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Interest paid | $ 6,375 | $ 12,917 |



*The accompanying notes are an integral part of these financial statements.*

## 1. ORGANIZATION

An evidence-based and community driven literacy organization, Reading Partners (the "Organization") recruits, trains, and supports community volunteers as they work one-on-one with students for 45 minutes twice a week, using a structured, easy-to-follow, research-based curriculum. Reading Partners' program helps K-5 students in under-resourced schools who struggle with reading, gain foundational literacy skills, such as alphabet knowledge, letter-sound correspondence, phonics, fluency, and vocabulary, and make the all-important shift from learning to read to reading to learn. With the vision that all students will have the literacy skills they need to reach their full potential, Reading Partners helps put students on a path to achieving reading proficiency and becoming confident, lifelong readers.

In 1999, three community leaders founded Reading Partners. The Organization was incorporated as a 501(c)(3) under the name YES Reading in 2001 and changed its name to Reading Partners in 2008. In 2010, Reading Partners grew from a regional organization in California to a national organization. In the 2019-20 school year, which was affected by COVID-19 school campus closures that stopped tutoring for the final 2 1/2 months of the school year, Reading Partners engaged nearly 12,000 community tutors to serve over 8,400 students in 215 schools in 13 geographic regions across the country. By the time the 2020-21 school year started, Reading Partners had developed a suite of innovative programs designed to provide ongoing support to students whether they were attending school in-person or remotely. The Organization launched an online tutoring program called Reading Partners Connects that accounted for 94% of the nearly 111,000 tutoring sessions delivered to 4,113 students in an unprecedented year.

As Reading Partners enters the 2021-22 school year and looks to the future, the Organization intends to leverage its traditional in-person model as well as Reading Partners Connects and other program innovations to positively impact more students across the country.

## 2. PROGRAM SERVICES

***One-on-One Reading Program***

Reading Partners empowers elementary students in under-resourced communities to reach their full potential by ensuring they have the foundational reading skills necessary for academic, professional, and life success. To support this effort, we recruit, train, and support community volunteers to provide individualized instruction in local Title I elementary schools to students who are behind grade level in reading. Our program uses an approach customized by grade level: for kindergarteners through second graders, we help students focus on developing mastery of key foundational literacy skills; for third and fourth graders, we help students further develop the complex reading skills necessary to be on track for grade-level reading proficiency.

**2. PROGRAM SERVICES** (continued)

***One-on-One Reading Program*** *(continued)*

In each school with which we partner, Reading Partners transforms a dedicated space into a reading center and recruits at least 50 volunteer tutors to serve 40 or more students. Our student-tutor pairs work together (either in-person or online via Reading Partners Connects) for 45 minutes twice per week, following an individualized reading plan tailored to each student's particular needs and strengths as well as Reading Partners' strategic goals for student reading achievement. To execute this plan, tutors use Reading Partners' curriculum, a series of research-based, structured lesson plans that focus on knowledge of the alphabet, phonics instruction, fluency (the ability to read connected text quickly, accurately, and with expression), and early comprehension skills for beginning readers to more advanced vocabulary and comprehension instruction and practice for students who have mastered many of the foundational literacy skills. We assess students three times per year to monitor their progress toward program goals and grade-level achievement and to help advise tutors on how to best support their students. The results are dramatic: in the last non-COVID school year, 90% of Reading Partners’ kindergarteners through second- graders and 85% of all Reading Partners students met or exceeded their primary end-of-year literacy growth goal. Over the past two school years, student performance has remained high despite the immense educational challenges posed by the pandemic.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of significant accounting policies is as follows:

***Basis of Accounting***

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

***Basis of Presentation***

The net assets of the Organization are reported in groups as follows:

*Without Donor Restrictions*

Net assets that are not subject to donor-imposed stipulations.

*With Donor Restrictions*

Net assets received with donor stipulations that limit the use of the assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Cash and Cash Equivalents***

The Organization has defined cash and cash equivalents as cash in bank, petty cash on hand, and funds held in a money market account.

***Receivables***

*Accounts, Government Contracts and Grants*

The accounts, government contracts and grants receivable consist of amounts due from government agencies under various cost-reimbursement and fee for service agreements. The Organization provides for an allowance for doubtful accounts based on historical collectability and other factors known to management. At June 30, 2021, management believed accounts, government contracts, and grants receivable to be fully collectable, and no allowance was provided.

*Pledges*

Unconditional promises to give are recognized as support in the period the pledge is made. Pledges receivable are recorded at their cash value if expected to be collected in one year and at their net realizable value if expected to be collected in more than one year. Management has discounted these promises to give to the anticipated net present value of the future cash flows using a discount rate of 1.71%. Amortization of the discount is included in contribution revenue. Management believes all pledges receivable are collectible, therefore, no allowance for doubtful accounts has been provided. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

*Donated Rent*

The Organization received a contribution for the use of office space through January 31, 2022. The fair value of the donated rent, adjusted for consumer price index increases, is recorded as donated rent receivable and net assets with donor restrictions. Donated rent is amortized as in-kind rent expense on a monthly basis and shown as net assets released from restrictions.

***Revenue Recognition***

*Grants and Contributions*

Revenue recognition for contribution and grant income is evaluated under Accounting Standards Update ("ASU") 2018-08 and is accounted for as nonreciprocal transactions. Unconditional contributions and grants received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in net assets without restrictions. All other donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Revenue Recognition*** (continued)

*Grants and Contributions* (continued)

Conditional contributions and grants are recognized only when the conditions they depend on are substantially met and contributions become unconditional. At June 30, 2021, government grants amounting to $277,433 have not been recognized in the accompanying financial statements because the conditions to incur qualifying expenses had not been met.

*Contributions In-Kind*

*Tutoring Facilities and Office Space*

The Organization receives donated dedicated space in schools where it provides its core program (see Note 11). The fair value of the donated space is determined by the school based on square footage of the dedicated space and the appropriate market value of rent for the space. The fair value is estimated using information provided to the Organization by the school. In addition, the Organization receives donated office space, which is recorded at fair value using information provided to the Organization by the donor.

*Services*

Contributed services, which require specialized skills and which the Organization would have paid for if not donated, are recorded at their fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. These contributed services are not reflected in the accompanying financial statements.

*Other Contributions In-Kind*

Donated products and supplies are recorded at their fair value as of the date of the donation.

*Tutoring Service Fees*

Revenue recognition for contract income is evaluated under Accounting Standards Codification ("ASC") 606 through the following five steps: (i) identification of the contract or contracts with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Revenue Recognition*** (continued)

*Tutoring Service Fees* (continued)

Tutoring service fees revenue consists of contracts that the Organization enters into with various schools to operate a tutoring program for students. The Organization's performance obligation generally consists of the promise to provide a service of tutoring. Revenue for tutoring services is recognized over time as the services are completed and accepted by a customer that meets the agreed-upon specifications.

Revenue is based on the consideration specified in the contract for the exchange of services. Payment terms are typically 30 days. There are no variable considerations.

Accounts receivable and contract liabilities are $438,195 and $24,166, respectively, as shown on the accompanying statement of financial position.

***Property and Equipment***

Property and equipment with an original purchase price in excess of $2,500 are recorded at cost or fair value for donated items. Costs of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 10 years. Leasehold improvements are amortized over the lesser of the estimated useful lives or the duration of the lease term. Depreciation is charged to the activity benefiting from the use of the property or equipment.

***Deferred Rent***

The Organization has certain lease agreements that provide for rent escalations during the lease terms. The Organization records rent expense on a straight-line basis over the term of the respective lease. Accordingly, deferred rent is recorded to the extent that rent expense exceeds actual rent payments.

***Income Taxes***

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from state income taxes under various state codes. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable tax authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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.

***Functional Expense Allocation***

The costs of providing various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management's estimate of the indirect salary expense allocation is based on estimated time spent by individual employees. Other indirect costs are prorated based on salary expense or allocated based on estimated usage.

***Concentrations***

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits (currently $250,000 per depositor). The Organization has not experienced any losses in such accounts.

The Organization is dependent on federal grants from the Corporation for National and Community Service (CNCS). If the level of these grants varies, there may be a resulting effect upon the level and types of activities and program services offered by the Organization. For the year ended June 30, 2021, approximately 78% of government grant and contract revenues and 18% of total revenue was from CNCS.

***Comparative Financial Information***

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *New Accounting Pronouncements*

During February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, "*Leases* (Topic 842)." ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. FASB has issued subsequent standards that deferred the implementation date. Topic 842 (as amended) is effective for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Organization is currently assessing the effect that Topic 842 (as amended) will have on its results of operations, financial position and cash flows.

During June 2016, the FASB issued ASU No. 2016-13, "*Measurement of Credit Losses on Financial Instruments.*" ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. FASB has issued subsequent standards to clarify, correct errors in or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Organization is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its results of operations, financial position and cash flows.

During September 2020, the FASB issued ASU No. 2020-07, "*Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.*" ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021. The Organization is currently assessing the effect that ASU No. 2020-07 will have on its financial statements.

### *Reclassifications*

Certain amounts in the prior year financial statements were reclassified to conform with the current year presentation.

### *Subsequent Events*

Management has evaluated events and transactions for potential recognition or disclosure through October 25, 2021, which represents the date the financial statements were available to be issued.

## 4. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance in U.S. GAAP and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. ASU 2014-09 and its amendments were included primarily in Accounting Standards Codification ("ASC") 606. The Organization has adjusted the presentation of its financial statements accordingly.

The core principle of ASC 606 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. Revenue is recognized when control of the promised goods or services is transferred to customers. ASC 606 also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments used (refer to Note 3). The Organization adopted ASC 606 effective July 1, 2020, using the modified retrospective method applied to contracts at the date of adoption. The adoption of ASC 606 did not have a material effect on the Organization's financial position or results of operations and there was no cumulative effect adjustment to the opening balance of net assets as of July 1, 2020 as a result of ASC 606 implementation.

## 5. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

During the year ended June 30, 2021, the Organization had an increase in net assets without donor restrictions of about $4,800,000, increasing the net assets without donor restrictions from approximately $2,600,000 at June 30, 2020 to surplus of $7,500,000 at June 30, 2021.

Management has made significant progress in improving the Organization's cash flows by controlling costs and finding adequate resources to fund operations. Management has increased the change in net assets without donor restrictions from approximately $1,700,000 for the year ended June 30, 2020 to approximately $4,800,000 for the year ended June 30, 2021. The Organization has a line of credit which is available for use to temporarily fund gaps in cash flows primarily related to cost-reimbursement grants. As of June 30, 2021, the Organization had $4,000,000 available under the line of credit. The line of credit matures on January 30, 2022. Management plans to renew the line of credit for another year from the date of maturity.

| | |
|---|---|
| Financial assets at June 30, 2021: | |
| Cash and cash equivalents | $ 11,362,782 |
| Receivables | |
| Accounts and grants | 255,000 |
| Government contracts | 537,104 |
| Pledges - net | 4,179,699 |
| Total financial assets | 16,334,585 |
| Less amounts not available to be used within one year | (510,000) |
| Financial assets available to meet general expenditures within one year | $ 15,824,585 |

## 6. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2021, consisted of the following:

| | | |
|---|---|---|
| Total pledges receivable | $ | 4,549,699 |
| Present value discount | | (1,283) |
| | | 4,548,416 |
| Less: current portion | | (4,179,699) |
| Total pledges receivable - long-term - net | $ | 368,717 |

Pledges receivable are expected to be collected as follows:

| Year ending June 30, | | |
|---|---|---|
| 2022 | $ | 4,179,699 |
| 2023 | | 295,000 |
| 2024 | | 75,000 |
| | | 4,549,699 |
| Less: present value discount | | (1,283) |
| Total pledges receivable - net | $ | 4,548,416 |

## 7. PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation and amortization of property and equipment at June 30, 2021 consisted of the following:

| | | |
|---|---|---|
| Curriculum | $ | 1,067,219 |
| Furniture and equipment | | 162,904 |
| Website | | 16,281 |
| Software | | 116,271 |
| Leasehold improvements | | 20,358 |
| | | 1,383,033 |
| Less: accumulated depreciation and amortization | | (1,291,422) |
| Total property and equipment - net | $ | 91,611 |

Depreciation and amortization expense for the year ended June 30, 2021 was $60,738.

## 8. LINE OF CREDIT

The Organization has a $4,000,000 line of credit with Union Bank of California that matures on January 30, 2022. The line of credit bears interest at the Wall Street Journal prime rate plus 0.5% per annum (3.75% at June 30, 2021). The line of credit agreement contains financial covenants that require, among other matters, that the Organization maintain a minimum current ratio and total net assets. At June 30, 2021, there was no outstanding balance on the line of credit. For the year ended June 30, 2021, interest expense amounted to $6,375.

## 9. PAYCHECK PROTECTION PROGRAM LOAN

In May 2020, the Organization received loan proceeds in the amount of $3,070,000 under the Paycheck Protection Program ("PPP") which was established as part of the Coronavirus Aid, Relief and Economic Security ("CARES") Act and is administered through the Small Business Administration ("SBA"). The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is payable over 2 years at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. The Organization may request to repay the loan over five years and the request is subject to the approval of the lender. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

The Organization met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness in November 2020. Legal release was received during June 2021, therefore the Organization recorded forgiveness income of $3,070,000 within its statement of activities for the year ended June 30, 2021.

In March 2021, the Organization applied for and received $1,938,872, as a second draw of the PPP Loan (PPP 2 Loan) under the CARES Act.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

**9. PAYCHECK PROTECTION PROGRAM LOAN** (continued)

Annual maturities of the note payable are as follows:

| Year ending June 30, | | |
|---|---|---|
| 2022 | $ | 509,947 |
| 2023 | | 515,070 |
| 2024 | | 520,244 |
| 2025 | | 393,611 |
| | $ | 1,938,872 |

**10. NET ASSETS WITH DONOR RESTRICTIONS**

The Organization's net assets with donor restrictions as of June 30, 2021 consisted of the following:

| | | |
|---|---|---|
| Purpose restricted | $ | 4,974,745 |
| Purpose and time restricted | | 1,395,000 |
| Total net assets with donor restrictions | $ | 6,369,745 |

| | | |
|---|---|---|
| Time restriction accomplished | $ | 5,822,367 |
| Total net assets released from restrictions | $ | 5,822,367 |

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

| | | |
|---|---|---|
| Time restriction accomplished | $ | 5,822,367 |
| Total net assets released from restrictions | $ | 5,822,367 |

**11. CONTRIBUTIONS IN-KIND**

The fair value of donated books, services, supplies, and facilities are recorded as contributions. During the year ended June 30, 2021, the following in-kind contributions were received by the Organization:

| | | |
|---|---|---|
| Facilities | $ | 488,075 |
| Services | | 772,618 |
| Total contributions in-kind | $ | 1,260,693 |

## 12. RETIREMENT PLAN

The Organization sponsors a defined contribution plan for eligible employees under Section 403(b) of the Internal Revenue Code (IRC). All full time employees are eligible to participate in the plan. Employer contributions were $148,859 for the year ended June 30, 2021.

The Organization also sponsors a defined contribution plan for management and highly compensated employees under Section 457(b) of the IRC. Members of management and highly compensated employees as defined by IRC Section 414(q) are eligible to participate in the plan if they are approved by the Retirement Committee. Employer contributions were $20,869 for the year ended June 30, 2021.

## 13. COMMITMENTS

The Organization leases office space in various cities throughout the United States. The leases expire at various periods through 2025 with monthly rental payments of up to $75,177. The Organization also subleases office space at its headquarters. Sublease rental income was $336,310 for the year ended June 30, 2021. Rent expense for the year ended June 30, 2020, was $1,117,003.

Future minimum lease payments, reduced by future sublease income, are as follows:

| Year ending June 30, | | |
|---|---|---|
| 2022 | $ | 394,777 |
| 2023 | | 179,658 |
| 2024 | | 57,117 |
| 2025 | | 19,159 |
| | $ | 650,711 |

## 14. CONTINGENCIES

Amounts received and expended by the Organization under federally funded programs are subject to audit by oversight governmental agencies. The Organization's management believes that potential adjustments, if any, resulting from such audits will not have a significant effect on the Organization's financial statements.

From time to time, the Organization may be a party to certain actions in the ordinary course of business. In the opinion of management, the outcome of such matters, if there were any, would not have a material effect on the financial statements.

## 15. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") outbreak a pandemic. The worldwide spread of COVID-19 is has resulted in a global slowdown of economic activity. As a result, The Organization has experienced negative impacts to the results of its operations and its financial position. Currently, there is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy. While the Organization expects this matter to negatively impact its operations and financial position, the related financial impact cannot be reasonably estimated at this time. In response to COVID-19, the Organization obtained a PPP loan in the amount of $1,938,872 (refer to Note 9).