LEARNING ALLY, INC.

(A Not-For-Profit Organization)

FINANCIAL STATEMENTS

JUNE 30, 2019 and 2018

(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, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for each of the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2019 and 2018, and the changes in its net assets and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Our audits were 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, Rules of the State of Florida Auditor General 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 5, 2019 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 the Organization's internal control over financial reporting and compliance.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
November 5, 2019

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

Statements of Financial Position

	June 30, 2019	June 30, 2018
ASSETS		
Cash and cash equivalents	**$ 887,752**	$ 1,716,554
Grants and other receivables	**1,246,797**	617,759
Contributions receivable, net	**2,385,380**	2,350,565
Investments	**18,224,663**	18,840,261
Prepaid expenses and other assets	**552,202**	528,215
Split-interest agreements and other arrangements	**197,781**	1,012,679
Beneficial interest in perpetual trusts	**4,598,416**	3,058,079
Property and equipment, net	**2,886,415**	3,221,855
Total assets	**$ 30,979,406**	$ 31,345,967
LIABILITIES		
Accounts payable and accrued expenses	**$ 2,011,679**	$ 1,329,664
Deferred revenue	**4,019,901**	3,266,117
Obligations under capital lease	**76,011**	137,905
Total liabilities	**6,107,591**	4,733,686
Commitments		
NET ASSETS		
Without donor restrictions	**2,359,800**	5,236,372
With donor restrictions:		
Purpose restrictions	**9,617,857**	10,049,667
Perpetual restrictions	**12,894,158**	11,326,242
	22,512,015	21,375,909
Total net assets	**24,871,815**	26,612,281
Total liabilities and net assets	**$ 30,979,406**	$ 31,345,967

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

Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions		
		Purpose	Perpetual	Total
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	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 nonoperating 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

See notes to financial statements

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

Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions Purpose	With Donor Restrictions Perpetual	Total
Operating revenue and other support:				
Contributions, private grants and legacies	$ 1,939,622	$ 2,578,915	$ -	$ 4,518,537
Government grants and contracts	3,791,254	-	-	3,791,254
Donated services, goods and rent	3,971,562	-	-	3,971,562
Membership fees and services, net	6,386,910	-	-	6,386,910
Interest and dividends, net	554,263	1,932,444	-	2,486,707
Other revenue	16,111	-	-	16,111
	16,659,722	4,511,359	-	21,171,081
Net assets released from restrictions	3,560,235	(3,560,235)	-	-
Total operating revenue and other support	20,219,957	951,124	-	21,171,081
Operating expenses:				
Program services:				
Educational solutions	9,925,365	-	-	9,925,365
Services coordination	6,925,014	-	-	6,925,014
Total program services	16,850,379	-	-	16,850,379
Supporting services:				
Administration	2,673,605	-	-	2,673,605
Fundraising	1,804,256	-	-	1,804,256
Total supporting services	4,477,861	-	-	4,477,861
Total operating expenses	21,328,240	-	-	21,328,240
(Deficiency) excess of operating revenue and other support over operating expenses before nonoperating activities	(1,108,283)	951,124	-	(157,159)
Non-operating activities:				
Loss on disposition of property and equipment	(10,882)	-	-	(10,882)
Net unrealized and realized (losses) gains on investments and perpetual trusts	(153,739)	(1,004,312)	126,757	(1,031,294)
Change in value of split-interest agreements	-	95,280	-	95,280
Change in net assets	(1,272,904)	42,092	126,757	(1,104,055)
Net assets, beginning of the year	6,509,276	8,804,190	12,402,870	27,716,336
Reclassification of net assets	-	1,203,385	(1,203,385)	-
Net assets, end of year	$ 5,236,372	$ 10,049,667	$ 11,326,242	$ 26,612,281

LEARNING ALLY, INC.
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Statements of Functional Expenses
Year Ended June 30, 2019 (with summarized comparative totals for year ended June 30, 2018)

	Program Services			Supporting Services		Total Expenses	
	Educational Solutions	Services Coordination	Total Program Services	Administration	Fundraising	FY 2019	FY 2018
Salaries	$ 3,106,920	$ 5,879,806	$ 8,986,726	$ 1,644,831	$ 812,319	$ 11,443,876	$ 9,369,965
Employee benefits	684,426	1,257,619	1,942,045	294,396	147,574	2,384,015	1,977,452
Total employee compensation	3,791,346	7,137,425	10,928,771	1,939,227	959,893	13,827,891	11,347,417
Volunteer services	4,724,711	-	4,724,711	-	-	4,724,711	3,868,738
Professional fees	55,831	900,493	956,324	307,318	391,748	1,655,390	1,449,939
Staff recruitment and training	111,878	466,808	578,686	56,663	93,000	728,349	477,637
Data processing	61,041	174,026	235,067	366,084	26,239	627,390	512,348
Rent and utilities	545,669	-	545,669	-	-	545,669	1,060,709
Travel and conferences	52,351	311,579	363,930	76,487	37,745	478,162	493,698
Marketing	1,642	266,237	267,879	2,199	3,492	273,570	122,675
Maintenance and repairs	160,227	-	160,227	61,539	-	221,766	301,446
Production supplies	188,133	-	188,133	-	-	188,133	193,146
Telephone	27,369	2,039	29,408	108,288	361	138,057	148,092
Other	7,292	35,004	42,296	84,566	1,296	128,158	109.631
Books and publications	43,275	24,815	68,090	10,643	24,678	103,411	117,736
Awards and grants	-	96,000	96,000	-	-	96,000	93,800
Office supplies	31,328	7,412	38,740	8,152	1,450	48,342	44,205
Postage and packaging	24,679	10,249	34,928	2,291	7,377	44,596	39,911
Interest	-	-	-	5,209	-	5,209	8,072
Expenses before depreciation	9,826,772	9,432,087	19,258,859	3,028,666	1,547,279	23,834,804	20,389,200
Depreciation	190,596	150,217	340,813	118,591	686	460,090	939,040
Total expenses	$ 10,017,368	$ 9,582,304	$ 19,599,672	$ 3,147,257	$ 1,547,965	$ 24,294,894	$ 21,328,240

LEARNING ALLY, INC.
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Statements of Cash Flows

	Year Ended June 30, 2019	Year Ended June 30, 2018
Cash flows from operating activities:		
Change in net assets	**$ (1,740,466)**	$ (1,104,055)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	**460,090**	939,040
Change in discount and allowance related to contributions receivable	**(53,096)**	(58,456)
Net (gain) loss on disposition of property and equipment	**(4,529)**	10,882
Net unrealized and realized losses on investments and perpetual trusts	**864,620**	1,031,294
Donated securities	**(29,921)**	(111,305)
Proceeds from sale of donated securities	**28,769**	107,682
Increase in beneficial interests 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	**(629,038)**	511,812
Contributions receivable	**18,281**	920,696
Prepaid expenses and other assets	**(23,987)**	92,653
Split-interest agreements and other arrangements	**814,898**	37,616
Accounts payable and accrued expenses	**682,015**	400,914
Deferred revenue	**753,784**	747,900
Net cash (used in) provided by operating activities	**(456,027)**	3,526,673
Cash flows from investing activities:		
Purchases of investments	**(1,270,338)**	(3,486,693)
Proceeds from sales of investments	**1,052,425**	1,155,935
Purchase of property and equipment	**(124,650)**	(234,187)
Proceeds from disposition of property and equipment	**4,529**	11,500
Net cash used in investing activities	**(338,034)**	(2,553,445)
Cash flows from financing activities:		
Principal payments on capital lease	**(61,894)**	(59,031)
Contribution revenue permanently restricted for long-term investment	**27,152**	-
Net cash used in financing activities	**(34,742)**	(59,031)
Net (decrease) increase in cash and cash equivalents	**(828,802)**	914,197
Cash and cash equivalents, beginning of year	**1,716,554**	802,357
Cash and cash equivalents, end of year	**$ 887,752**	$ 1,716,554
Supplemental disclosure of cash flow information:		
Interest paid	**$ 5,209**	$ 8,072

NOTE A - ORGANIZATION

Learning Ally, Inc. (the "Organization") is a leading education solutions organization dedicated to transforming the lives of struggling learners. The Learning Ally Audiobook Solution is a proven multi-sensory reading accommodation for students with a reading deficit composed of high-quality, human-read audiobooks, student-centric features and a suite of teacher resources to monitor and support student success. Used in more than 17,000 schools, this solution bridges the gap between a student's reading ability and their cognitive capability, empowering them to become engaged learners and reach their academic potential. 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 August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The ASU amends the current reporting model for nonprofit organizations and enhances the required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the placed in service approach to recognize the expiration of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofit present an analysis of expenses by function and nature and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidly and availability of resources, (f) presenting investment return net of external and direct internal expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted the ASU as of and for the year ended June 30, 2019, and has retroactively applied its provisions to all periods presented. The adoption of the ASU increased net assets without donor restrictions by $13,468 and decreased net assets with donor restrictions by $13,468 resulting from the reclassifications of underwater endowment funds.

[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-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-imposed stipulations 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-imposed stipulations that will be met either by actions of the Organization, or the passage of time, and earnings derived from donor-restricted endowments not yet appropriated for expenditure by the Board of Directors.

<u>Net assets without donor restrictions</u> - net assets not subject to donor-imposed stipulations.

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-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. Expiration of purpose restrictions are reported as net assets released from restrictions on the statements of activities.

[3] Government grants and contracts:

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. Amounts received in advance are deferred until such time that the underlying obligation is satisfied by Learning Ally, Inc.

[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 $845,941 and $369,921 for the years ended June 30, 2019 and 2018, 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. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. 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.

[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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Split-interest agreements and other arrangements: (continued)

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, 2019 and 2018) 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 the 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.

[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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] 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.

[11] Measure of operations:

"Excess/(deficiency) of operating revenue and other support over operating expenses before nonoperating 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.

Nonoperating 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.

[12] 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, 2019 and 2018, 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, 2019 and 2018.

[13] 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.

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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[14] New accounting pronouncements:

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. For nonpublic business entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. The Organization is currently evaluating the effect that the new standard will have on the financial statements and related disclosures.

In June 2018, the FASB issued 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 is effective for annual periods beginning after December 15, 2018 for entities that are resource recipients and for annual periods beginning after December 15, 2019 for entities that are resource providers, with early adoption permitted. ASU 2018-08 should be applied on a modified prospective basis. The Organization is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

[15] Reclassification of net assets:

The Organization reclassified approximately $1,204,000 in June 30, 2018 from net assets with donor restrictions – perpetual restrictions, to net assets with donor restrictions – purpose restrictions, to appropriately reflect net assets according to donor stipulations, without any effect on total net assets. Additionally, certain amounts in the prior period have been reclassified to reflect adoption of ASU 2016-14.

[16] Subsequent events:

The Organization evaluated subsequent events through November 5, 2019, 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, 2019 and 2018, 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.

NOTE C - INVESTMENTS (CONTINUED)

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

	2019	2018
Money market funds	$ 90,616	$ 43,425
Mutual funds	265,432	257,184
U.S. corporate stocks	211,942	335,607
Fund of funds	17,656,673	18,204,045
	$ 18,224,663	$ 18,840,261

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.

	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

NOTE D - FAIR VALUE HIERARCHY (CONTINUED)

	2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 43,425	$ 43,425	$ -	$ -
Mutual funds	257,184	257,184	-	-
U.S. corporate stocks	335,607	335,607	-	-
Fund of funds measured at NAV (A)	18,204,045	-	-	-
	18,840,261	636,216	-	-
Split interest agreements and other arrangements	1,012,679	-	-	1,012,679
Beneficial interest in perpetual trusts	3,058,079	-	-	3,058,079
	$ 22,911,019	$ 636,216	$ -	$ 4,070,758

(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, 2019 and 2018.

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, 2019 and 2018:

	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**

NOTE D - FAIR VALUE HIERARCHY (CONTINUED)

	2018		
	Total Level 3	**Beneficial Interest in Perpetual Trusts**	**Split Interest Agreements and Other Arrangements**
Balance June 30, 2017	$ 3,981,617	$ 2,931,322	$ 1,050,295
Additions	-	-	-
Distributions	(254,427)	(121,531)	(132,896)
Change in value of split interest agreements and other arrangements	95,280	-	95,280
Net realized and unrealized gain	248,288	248,288	-
Ending balance, June 30, 2018	$ 4,070,758	$ 3,058,079	$ 1,012,679

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, 2019 and 2018, 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.

NOTE E - ENDOWMENT (CONTINUED)

[1] Interpretation of relevant law: (continued)

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, 2019 and 2018:

	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**

	2018			
	Without Donor Restrictions	With Donor Restrictions Purpose	With Donor Restrictions Perpetual	Total
Donor-restricted endowment funds	$ -	$ 5,459,941	$ 8,268,163	$ 13,728,104

Net assets with donor restrictions - perpetual includes $4,598,416 and $3,058,079, respectively, at June 30, 2019 and 2018, 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, 2019 and 2018 are as follows:

	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**
Contributions	**-**	**-**	**27,152**	**27,152**
Endowment net assets, at June 30, 2019	**$ -**	**$ 5,976,342**	**$ 8,295,742**	**$ 14,272,084**

	2018			
	Without Donor Restrictions	**With Donor Restrictions Purpose**	**With Donor Restrictions Perpetual**	**Total**
Endowment net assets, at June 30, 2017	$ -	$ 3,336,355	$ 9,471,548	$ 12,807,903
Investment return:				
Investment income, net of fees	-	1,924,725	1,587	1,926,312
Net depreciation (realized and unrealized)	-	(1,005,282)	(829)	(1,006,111)
Total investment return	-	919,443	758	920,201
Reclassification of endowment assets	-	1,204,143	(1,204,143)	-
Endowment net assets, at June 30, 2018	$ -	$ 5,459,941	$ 8,268,163	$ 13,728,104

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, 2019 and 2018 are as follows:

	2019	2018
Net Assets With Donor Perpetual Restrictions		
The portion of perpetual endowment funds that are required to be retained permanently by explicit donor stipulation	**$ 8,295,742**	$ 8,268,163
Total endowment funds classified as permanently restricted net assets	**$ 8,295,742**	$ 8,268,163
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)	**$ 663,177**	$ 528,301
With purpose restrictions (see Note H)	**5,313,165**	4,931,640
	$ 5,976,342	$ 5,459,941

[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, and totaled $13,041 and $13,468 as of June 30, 2019 and 2018, 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 of appropriating for distribution each year 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.

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, 2019 and 2018:

	2019	2018	Depreciable Life
Land	**$ 856,510**	$ 856,510	
Buildings and improvements	**6,963,789**	6,963,789	10 - 40 years
Leasehold improvements	**242,070**	242,070	5 - 40 years
Recording and office equipment	**14,062,679**	13,934,829	3 - 10 years
Vehicles	**-**	15,334	3 years
Construction in progress	**-**	3,200	
	22,125,048	22,015,732	
Less: accumulated depreciation	**(19,238,633)**	(18,793,877)	
Property and equipment, net	**$ 2,886,415**	$ 3,221,855	

Depreciation expense was $460,090 and $939,040 for the years ended June 30, 2019 and 2018, respectively. In 2018, the Organization transitioned eight production studios to virtual production as the final step in converting its recording process to an all-virtual mode and 2018 depreciation expense reflects depreciation on certain studio assets to the date of the studio transition.

Property and equipment recorded under a capital lease (see Note L) and related accumulated depreciation at June 30, 2019 was $298,160 and $223,620, respectively. Property and equipment recorded under capital lease and related accumulated depreciation at June 30, 2018 was $298,160 and $163,988, respectively. Depreciation expense for each of the years ended June 30, 2019 and 2018 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, 2019 and 2018. In the opinion of management there was no impairment during the year ended June 30, 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. 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 provided by professionals. Donated services for the Organization consist primarily of recording studio time incurred/contributed by volunteers, which has been valued at $88 and $82 per hour for the years ended June 30, 2019 and 2018, 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 $4,724,711 and $3,868,738, and donated books and in-kind donations of $21,404 and $42,074, for the years ended June 30, 2019 and 2018, 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, 2019 and 2018. The contributed rent recognized for all donated office space for each of the years ended June 30, 2019 and 2018 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, 2019 and 2018:

	2019	2018
Subject to expenditure for a specified purpose:		
Blind and Visually-Impaired	**$ 671,715**	$ 774,763
Content development (audiobooks & learning solutions)	**147,490**	297,771
Implementation of educational solutions in specific schools	**66,428**	-
Other	**172,721**	153,948
	1,058,354	1,226,482
Subject to Organization's spending policy and appropriation:		
National Achievement Awards (scholarships)	**2,295,045**	2,127,412
Development, production and distribution of learning resources - nationally	**1,917,763**	1,780,517
Development, production and distribution of learning resources - regionally	**1,100,357**	1,023,711
With purpose restriction	**5,313,165**	4,931,640
General operations	**663,177**	528,301
	5,976,342	5,459,941
	7,034,696	6,686,423
Subject to the passage of time:		
Beneficial interests in split-interest agreements	**197,781**	1,012,679
Contributions which are unavailable for expenditure until received	**2,385,380**	2,350,565
	$ 9,617,857	$ 10,049,667

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, 2019 and 2018:

	2019	2018
National Achievement Awards (scholarships)	**$ 2,390,601**	$ 2,390,601
Development, production and distribution of learning resources - nationally	**1,849,653**	1,849,226
Development, production and distribution of learning resources - regionally	**1,052,719**	1,052,719
With purpose restriction	**5,292,973**	5,292,546
General operations	**3,002,769**	2,975,617
Endowment funds required to be retained	**8,295,742**	8,268,163
Beneficial interests in charitable trusts held by others	**4,598,416**	3,058,079
Net assets with perpetual restrictions	**$ 12,894,158**	$ 11,326,242

[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, 2019 and 2018:

	2019	2018
Satisfaction of purpose restrictions:		
Content development (audiobooks & learning solutions)	**$ 899,019**	$ 1,400,262
Blind and Visually-Impaired	**407,725**	528,149
Implementation of educational solutions in specific schools	**117,794**	235,759
Subsidizing of individual memberships	**25,220**	23,743
	1,449,758	2,187,913
Distributions (proceeds are not restricted by donors):		
Beneficial interests in split-interest agreements	**828,180**	132,896
Termination of gift annuity	**-**	24,567
	828,180	157,463
Expiration of time restrictions:		
Payments on contributions receivables	**1,558,802**	1,130,935
Amortization of donated rent	**-**	83,924
Net assets released from donor restrictions	**$ 3,836,740**	$ 3,560,235

NOTE I - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of unconditional promises to give and are expected to be received as follows:

	2019	2018
Less than one year	**$ 832,715**	$ 772,663
One to five years	**225,000**	303,333
More than five years	**1,510,000**	1,510,000
	2,567,715	2,585,996
Less:		
Allowance for uncollectible promises	**(7,326)**	(21,487)
Present value discount (3.09% to 5.60% in 2019 and 3.09% to 5.32% in 2018)	**(175,009)**	(213,944)
Contributions receivable, net	**$ 2,385,380**	$ 2,350,565

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 $202,479 and $68,985, respectively, for the years ended June 30, 2019 and 2018 be made.

NOTE K - COMMITMENTS AND CONTINGENCIES

[1] Commitments:

The Organization is obligated under several service contracts and operating leases for rentals of office space and 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
2020	$ 403,000
2021	14,000
2022	11,000
2023	11,000
2024	3,000
Total	$ 442,000

NOTE K - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[1] Commitments: (continued)

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 $10,772 and $24,594, respectively, as of June 30, 2019 and 2018, 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 $230,000 and $733,000 for the years ended June 30, 2019 and 2018, 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.

NOTE L - 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, 2019:

Year Ending June 30,	Amount
2020	$ 67,103
2021	11,184
Total minimum lease payments	78,287
Less: amount representing interest	2,276
Present value on minimum lease payments	$ 76,011

The present value of minimum future obligations shown above is calculated based on an interest rate of 2.51%.

NOTE M - GRANTS AND OTHER RECEIVABLES

Grants and other receivables consist of the following at June 30, 2019 and 2018:

	2019	2018
Government grants	**$ 103,193**	$ -
Customer and other receivables	**1,143,604**	617,759
Grants and other receivables	**$ 1,246,797**	$ 617,759

NOTE N - 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 component of its investments at June 30, 2019 without donor restrictions was approximately $3.8 million. The Organization's total investment balance at June 30, 2019 was $18.2 million, of which $8.3 million is permanently restricted by donors, $6.0 million is available upon the Organization's Board appropriating funds and $3.8 million is without donor restrictions.

As of June 30, 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 and commitments through 2024 but excluding deferred revenue, was 1.8 to 1. In addition, if needed, $6.0 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.

Financial assets available for general expenditures within one year of the statements of financial position date (June 30, 2019) are as follows:

Cash and cash equivalents	$ 887,752
Grants and other receivables expected to be collected that are not restricted	998,187
Contribution receivables expected to be collected that are not restricted	517,994
Investments without donor restrictions	3,756,235
Total	$ 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, 2019, 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 5, 2019.

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*.

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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 5, 2019

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, RULES OF THE STATE OF FLORIDA AUDITOR GENERAL 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 *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal program, and the Rules of the State of Florida Auditor General and State of New Jersey OMB Circular Letter 15-08 that could have a direct and material effect on each of the Organization's major state programs for the year ended June 30, 2019. 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 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Rules of the State of Florida Auditor General and State of New Jersey OMB Circular Letter 15-08. Those standards, Uniform Guidance, Rules of the State of Florida Auditor General 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.

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, 2019.

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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, Rules of the State of Florida Auditor General 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, Rules of the State of Florida Auditor General 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 5, 2019

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

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

Section I − Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
– Material weakness(es) identified?	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), the Rules of the State of Florida Auditor General 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 Number
Federal:	
U.S. Department of Education:	
Pass-through from the Texas Education Agency – Educational Outreach Program	84.027
U.S. Department of Education:	
Pass-through from the New Jersey Department of Education – Educational Outreach Program	84.027A
State of New Jersey:	
Governor's Literacy Initiative Program	19-100-034-5063-288-H300-6130
State of Florida:	
Florida Department of Education- Learning through Listening	780-95550--9QL01

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, 2019.

Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

Section IV – Summary of Prior Year Findings

No findings reported for the year ended June 30, 2018.

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

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

Federal/State Grantor or Pass-Through Grantor/Program Title	Pass-Through Grantor Number	Federal CFDA or State Grant Number	Total Expenditures
Federal award:			
U.S. Department of Education			
Pass-through from the New Jersey Department of Education –Educational Outreach Program	19-100-034-5065-086-HRID-6030-2009	84.027A	$ 54,366
Pass-through from the New Jersey Department of Education –Educational Outreach Program	18-100-034-5065-086-HRID-6130-2008	84.027A	145,000
Pass-through from the Texas Education Agency – Educational Outreach Program	3455/38194	84.027	744,153
Total Expenditures of Federal Awards			**$ 943,519**
State of Florida Awards:			
Florida Department of Education Learning through Listening	N/A	780-95550-9QL01	$ 1,141,704
State of Illinois Award:			
Educational Outreach Program	N/A	2019-3999-BD-65-108-8910-51	846,000
State of New Jersey Awards:			
Governor's Literacy Initiative Program Grant period: July 1, 2018 – June 30, 2019 Grant award: $125,000	N/A	19-100-034-5063-288-H300-6130	125,000
State of Massachusetts Award:			
Educational Outreach Program	N/A	19CT48LRNALLY 19SEPAC	199,418
State of Minnesota Award:			
Educational Outreach Program	N/A	E3701-3000018952	4,984
State of Indiana Award:			
Educational Outreach Program	N/A	602534	70,500
State of North Carolina Award:			
Educational Outreach Program	N/A	NC 10447566	185,500
State of Virginia Award:			
Special Education Program	N/A	EP2936193	50,318
Total Expenditures of State Awards			**$ 2,623,424**

Schedule of Expenditures of Federal and State Awards (continued)
Year Ended June 30, 2019

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, 2019. 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 page 31), 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.