

LEARNING ALLY, INC.

(A Not-For-Profit Organization)

FINANCIAL STATEMENTS

JUNE 30, 2022 and 2021

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Learning Ally, Inc.

Report on the Financial Statements

Opinion

We have audited the financial statements of Learning Ally, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

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



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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
October 28, 2022



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

Statements of Financial Position

	June 30,	
	2022	2021
ASSETS		
Cash and cash equivalents	\$ 4,095,396	\$ 1,733,691
Grants and other receivables	5,634,699	4,170,385
Contributions receivable, net	3,982,214	1,600,622
Investments	17,654,991	22,431,895
Prepaid expenses and other current assets	1,146,248	623,574
Split-interest agreements and other arrangements	23,921	59,800
Beneficial interest in perpetual trusts	5,055,383	5,866,530
Property and equipment, net	461,034	2,382,941
Other assets	508,710	-
	<u>38,562,596</u>	<u>38,869,438</u>
Total assets	<u>\$ 38,562,596</u>	<u>\$ 38,869,438</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,627,661	\$ 2,076,901
Deferred revenue	9,218,684	7,467,542
	<u>12,846,345</u>	<u>9,544,443</u>
Total liabilities	<u>12,846,345</u>	<u>9,544,443</u>
Commitments (see Note L)		
NET ASSETS		
Without donor restrictions	<u>3,792,197</u>	<u>5,315,897</u>
With donor restrictions:		
Purpose restrictions	8,955,291	10,229,188
Perpetual restrictions	<u>12,968,763</u>	<u>13,779,910</u>
	<u>21,924,054</u>	<u>24,009,098</u>
Total net assets	<u>25,716,251</u>	<u>29,324,995</u>
Total liabilities and net assets	<u>\$ 38,562,596</u>	<u>\$ 38,869,438</u>

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

Statement of Activities
Year Ended June 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Purpose</u>	<u>Perpetual</u>	
Operating revenue and other support:				
Contributions, private grants and legacies	\$ 2,481,556	\$ 4,755,224	\$ -	\$ 7,236,780
Donated services, goods and rent	1,416,926	-	-	1,416,926
Membership fees and services, net				
New schools	3,497,083	-	-	3,497,083
School renewals	5,033,034	-	-	5,033,034
Direct to consumer	2,430,626	-	-	2,430,626
Professional learning services	1,484,736	-	-	1,484,736
Government grants and contracts (see Note B[3])	3,359,851	-	-	3,359,851
Interest and dividends, net	748,942	2,268,162	-	3,017,104
Other revenue	466,738	-	-	466,738
	<u>20,919,492</u>	<u>7,023,386</u>	<u>-</u>	<u>27,942,878</u>
Net assets released from restrictions pursuing to an appropriation of an endowment net assets (see Note H)	690,010	(690,010)	-	-
Net assets released from restrictions-other	<u>2,625,410</u>	<u>(2,625,410)</u>	<u>-</u>	<u>-</u>
Total operating revenue and other support	<u>24,234,912</u>	<u>3,707,966</u>	<u>-</u>	<u>27,942,878</u>
Operating expenses:				
Program services:				
Educational solutions	5,501,237	-	-	5,501,237
Services coordination	<u>17,382,132</u>	<u>-</u>	<u>-</u>	<u>17,382,132</u>
Total program services	<u>22,883,369</u>	<u>-</u>	<u>-</u>	<u>22,883,369</u>
Supporting services:				
Administration	4,698,691	-	-	4,698,691
Fundraising	<u>1,618,776</u>	<u>-</u>	<u>-</u>	<u>1,618,776</u>
Total supporting services	<u>6,317,467</u>	<u>-</u>	<u>-</u>	<u>6,317,467</u>
Total operating expenses	<u>29,200,836</u>	<u>-</u>	<u>-</u>	<u>29,200,836</u>
(Deficiency) excess of operating revenue and other support over operating expenses before nonoperating activities	<u>(4,965,924)</u>	<u>3,707,966</u>	<u>-</u>	<u>(1,257,958)</u>

See notes to financial statements

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

Statement of Activities (continued)
Year Ended June 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Purpose</u>	<u>Perpetual</u>	<u>Total</u>
(Deficiency) excess of operating revenue and other support over operating expenses before nonoperating activities	\$ (4,965,924)	\$ 3,707,966	\$ -	\$ (1,257,958)
Non-operating activities:				
Gain on disposal of land, property and equipment	4,562,135	-	-	4,562,135
Net unrealized and realized loss on investments and perpetual trusts	(1,119,911)	(4,971,519)	(811,147)	(6,902,577)
Change in value of split-interest agreements	-	(10,344)	-	(10,344)
Total non-operating activities	3,442,224	(4,981,863)	(811,147)	(2,350,786)
Change in net assets	(1,523,700)	(1,273,897)	(811,147)	(3,608,744)
Net assets, beginning of year	<u>5,315,897</u>	<u>\$ 10,229,188</u>	<u>\$ 13,779,910</u>	<u>\$ 29,324,995</u>
Net assets, end of year	<u>\$ 3,792,197</u>	<u>\$ 8,955,291</u>	<u>\$ 12,968,763</u>	<u>\$ 25,716,251</u>

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

Statement of Activities
Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Purpose</u>	<u>Perpetual</u>	
Operating revenue and other support:				
Contributions, private grants and legacies	\$ 3,073,003	\$ 1,617,281	\$ -	\$ 4,690,284
Donated services, goods and rent	2,900,844	-	-	2,900,844
Membership fees and services, net				
New schools	2,701,395	-	-	2,701,395
School renewals	4,514,795	-	-	4,514,795
Direct to consumer	2,594,941	-	-	2,594,941
Professional learning services	480,927	-	-	480,927
Government grants and contracts (see Note B[3])	4,630,385	-	-	4,630,385
Interest and dividends, net	187,832	221,375	-	409,207
Other revenue	331,581	-	-	331,581
	<u>21,415,703</u>	<u>1,838,656</u>	<u>-</u>	<u>23,254,359</u>
Net assets released from restrictions pursuing to an appropriation of an endowment net assets (see Note H)	1,224,936	(838,070)	(386,866)	-
Net assets released from restrictions – other	<u>2,639,599</u>	<u>(2,639,599)</u>	<u>-</u>	<u>-</u>
 Total operating revenue and other support	<u>25,280,238</u>	<u>(1,639,013)</u>	<u>(386,866)</u>	<u>23,254,359</u>
Operating expenses:				
Program services:				
Educational solutions	7,999,954	-	-	7,999,954
Services coordination	<u>13,179,505</u>	<u>-</u>	<u>-</u>	<u>13,179,505</u>
 Total program services	<u>21,179,459</u>	<u>-</u>	<u>-</u>	<u>21,179,459</u>
Supporting services:				
Administration	3,952,644	-	-	3,952,644
Fundraising	<u>1,406,536</u>	<u>-</u>	<u>-</u>	<u>1,406,536</u>
 Total supporting services	<u>5,359,180</u>	<u>-</u>	<u>-</u>	<u>5,359,180</u>
 Total operating expenses	<u>26,538,639</u>	<u>-</u>	<u>-</u>	<u>26,538,639</u>
Deficiency of operating revenue and other support over operating expenses before nonoperating activities	<u>(1,258,401)</u>	<u>(1,639,013)</u>	<u>(386,866)</u>	<u>(3,284,280)</u>

LEARNING ALLY, INC.
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Statement of Activities (continued)
Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Purpose</u>	<u>Perpetual</u>	
Deficiency of operating revenue and other support over operating expenses before nonoperating activities	\$ (1,258,401)	\$ (1,639,013)	\$ (386,866)	\$ (3,284,280)
Non-operating activities:				
Gain on disposal of equipment	10,000	-	-	10,000
Settlement of lawsuit	1,500,000	-	-	1,500,000
Gain on forgiveness of Paycheck Protection Program loan payable	2,082,100	-	-	2,082,100
Net unrealized and realized gains on investments and perpetual trusts	1,246,113	3,916,468	1,219,192	6,381,773
Change in value of split-interest agreements	-	32,327	-	32,327
Total non-operating activities	4,838,213	3,948,795	1,219,192	10,006,200
Change in net assets	3,579,812	2,309,782	832,326	6,721,920
Net assets, beginning of year	<u>1,736,085</u>	<u>7,919,406</u>	<u>12,947,584</u>	<u>22,603,075</u>
Net assets, end of year	<u>\$ 5,315,897</u>	<u>\$ 10,229,188</u>	<u>\$ 13,779,910</u>	<u>\$ 29,324,995</u>

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

Statements of Functional Expenses
Year Ended June 31, 2022

	Program Services			Supporting Services		Total
	Educational Solutions	Services Coordination	Total Program Services	Administration	Fundraising	
Salaries	\$ 2,336,823	\$ 10,756,428	\$ 13,093,251	\$ 1,669,484	\$ 911,063	\$ 15,673,798
Employee benefits	588,703	1,828,180	2,416,883	238,215	131,745	2,786,843
Total employee compensation	2,925,526	12,584,608	15,510,134	1,907,699	1,042,808	18,460,641
Volunteer services	1,396,526	20,400	1,416,926	-	-	1,416,926
Professional fees	272,516	2,770,184	3,042,700	1,110,073	495,382	4,648,155
Data processing	55,358	526,557	581,915	669,717	12,207	1,263,839
Maintenance and repairs	100,901	441	101,342	352,633	-	453,975
Marketing	2,385	549,909	552,294	41	2,963	555,298
Staff recruitment and training	12,532	150,101	162,633	138,075	935	301,643
Rent and utilities	316,369	-	316,369	2,418	-	318,787
Production supplies	229,779	-	229,779	-	-	229,779
Books and publications	19,164	203,377	222,541	104,768	13,494	340,803
Telephone	22,567	2,079	24,646	111,114	122	135,882
Travel and conferences	14,709	411,310	426,019	83,158	35,577	544,754
Awards and grants	-	75,000	75,000	-	-	75,000
Other	3,461	65,020	68,481	116,105	2,264	186,850
Office supplies	19,180	12,010	31,190	23,251	852	55,293
Postage and packaging	7,976	2,836	10,812	3,804	12,106	26,722
Interest	-	-	-	5,070	-	5,070
Expenses before depreciation	5,398,949	17,373,832	22,772,781	4,627,926	1,618,710	29,019,417
Depreciation	102,288	8,300	110,588	70,765	66	181,419
Total expenses	\$ 5,501,237	\$ 17,382,132	\$ 22,883,369	\$ 4,698,691	\$ 1,618,776	\$ 29,200,836

See notes to financial statements

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

Statements of Functional Expenses
Year Ended June 31, 2021

	Program Services			Supporting Services		Total
	Educational Solutions	Services Coordination	Total Program Services	Administration	Fundraising	
Salaries	\$ 3,210,869	\$ 8,519,392	\$ 11,730,261	\$ 1,795,360	\$ 764,663	\$ 14,290,284
Employee benefits	784,676	1,697,312	2,481,988	362,213	126,694	2,970,895
Total employee compensation	3,995,545	10,216,704	14,212,249	2,157,573	891,357	17,261,179
Volunteer services	2,879,714	-	2,879,714	-	-	2,879,714
Professional fees	95,289	1,655,314	1,750,603	628,463	437,080	2,816,146
Data processing	80,085	394,077	474,162	442,649	11,996	928,807
Maintenance and repairs	125,122	210	125,332	295,141	-	420,473
Marketing	973	311,489	312,462	336	622	313,420
Staff recruitment and training	105,443	284,865	390,308	102,069	30,193	522,570
Rent and utilities	271,769	-	271,769	-	-	271,769
Production supplies	194,865	-	194,865	-	-	194,865
Books and publications	17,688	44,962	62,650	58,928	21,331	142,909
Telephone	23,314	329	23,643	110,003	-	133,646
Travel and conferences	1,181	75,773	76,954	28,921	2,602	108,477
Awards and grants	-	99,000	99,000	-	-	99,000
Other	4,303	28,166	32,469	32,399	-	64,868
Office supplies	16,612	11,264	27,876	9,415	1,604	38,895
Postage and packaging	8,031	4,263	12,294	1,160	9,235	22,689
Interest	-	-	-	6,265	-	6,265
Expenses before depreciation	7,819,934	13,126,416	20,946,350	3,873,322	1,406,020	26,225,692
Depreciation	180,020	53,089	233,109	79,322	516	312,947
Total expenses	<u>\$ 7,999,954</u>	<u>\$ 13,179,505</u>	<u>\$ 21,179,459</u>	<u>\$ 3,952,644</u>	<u>\$ 1,406,536</u>	<u>\$ 26,538,639</u>

See notes to financial statements

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

Statements of Cash Flows

	Year Ended June 30,	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,608,744)	\$ 6,721,920
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	181,419	312,947
Change in discount and allowance related to contributions receivable	(33,962)	(28,586)
Net gain on disposition of land, property and equipment	(4,562,135)	(10,000)
Net unrealized and realized loss (gains) on investments and perpetual trusts	6,902,577	(6,381,773)
Donated securities	(22,684)	(158,157)
Proceeds from sale of donated securities	23,404	151,716
Gain on forgiveness of Paycheck Protection Program loan payable	-	(2,082,100)
Change in assets and liabilities:		
Grants and other receivables	(1,464,314)	(1,193,672)
Contributions receivable	(2,347,630)	244,878
Prepaid expenses and other current assets	(522,674)	(70,699)
Split-interest agreements and other arrangements	35,879	44,701
Accounts payable and accrued expenses	1,550,760	445,197
Deferred revenue	1,751,142	1,821,229
	<u>(2,116,962)</u>	<u>(182,399)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of investments	(2,835,560)	(353,127)
Proceeds from sales of investments	1,544,638	740,889
Purchase of other assets	(508,710)	-
Purchase of property and equipment	(425,042)	(183,340)
Proceeds from sale of land, property and equipment	6,703,341	10,000
	<u>4,478,667</u>	<u>214,422</u>
Net cash provided by in investing activities		
Cash flows from financing activities:		
Principal payments on capital lease	-	(11,115)
	<u>-</u>	<u>(11,115)</u>
Net cash used in financing activities		
Net increase in cash and cash equivalents	2,361,705	20,908
Cash and cash equivalents, beginning of year	<u>1,733,691</u>	<u>1,712,783</u>
Cash and cash equivalents, end of year	\$ 4,095,396	\$ 1,733,691
Supplemental disclosure of cash flow information:		
Interest paid	\$ 5,070	\$ 6,265

LEARNING ALLY, INC.

(A New Jersey Not-for-Profit Organization)

Notes to Financial Statements June 30, 2022 and 2021

NOTE A - ORGANIZATION

Learning Ally, Inc. (the "Organization") is a leading nonprofit education solutions organization dedicated to equipping educators with proven solutions that help struggling learners reach their potential. The Organization's range of literacy-focused offerings for students Pre-K to 12th grade and catalog of professional learning allow us to support more than 1.9 million students and 400,000 educators across the U.S. Through Whole Child Literacy™, the Organization approaches literacy skills development with a holistic lens on the unique variables surrounding each student's learning ability and difference. The Organization's educational services include the Learning Ally Audiobook Solution, which is our cornerstone award-winning reading accommodation available in 20,500 schools to help students with reading deficits succeed, and Excite Reading™, our new digital PreK-2 supplemental literacy curriculum designed to bolster foundational language comprehension and vocabulary acquisition skills for children of all backgrounds and abilities with the support they need to truly comprehend and connect with texts. Learning Ally's services coordination program is designed to empower educators to help struggling students become engaged, independent readers through deeper understanding of research and best practices around reading, job-embedded action planning and coaching, and community tools that support the transformation of daily practice. Learning Ally, Inc. is partially funded by grants from federal, state and local education programs, and the generous contributions of individuals, foundations and corporations.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Adoption of new accounting pronouncement:

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. For each category of contributed nonfinancial assets recognized, not-for-profit organization will need to disclose: (i) qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period, if utilized, a description of the programs or other activities in which those assets were used; (ii) the not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; (iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; (iv) the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition; and (v) the principal market (or most advantageous market) used to arrive at a fair value measure, if it is a market in which the recipient entity is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. The amendments in this ASU is applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. The Organization adopted the standard for fiscal year ending June 30, 2022, and this accounting guidance did not have a material effect on the Organization's consolidated financial statements.

[2] Basis of presentation:

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

LEARNING ALLY, INC.

(A New Jersey Not-for-Profit Organization)

Notes to Financial Statements

June 30, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Basis of presentation: (continued)

(i) Net assets with donor restrictions: Perpetual restrictions:

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

(ii) Net assets with donor restrictions: Purpose restrictions:

Net assets subject to donor- (or certain grantor-) imposed stipulations that will be met either by actions of the Organization, or the passage of time as specified by donor, and earnings derived from donor-restricted endowments not yet appropriated for expenditure by the Board of Directors (the "Board") or appropriated but not yet spent for their donor designated purpose. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(iii) Net assets without donor restrictions:

Net assets not subject to donor- (or certain grantor-) imposed restrictions and available for use in general operations.

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

[3] Government grants and contracts:

Contribution revenue from federal and state grants is recognized to the extent that qualifying reimbursable expenses have been incurred under the terms of the respective agreements or performance measures as stipulated in the grants have been met. Contribution revenue is recognized over time as each performance requirement is achieved or as allowable expenditures are incurred. Amounts received in advance are deferred until such time that the underlying obligation is satisfied by Learning Ally, Inc. As of June 30, 2022 and 2021, the Organization does not have a refundable advance.

[4] Membership fees and services and deferred revenue:

Membership fees and services consists of memberships from new school customers, existing school customers ("school renewals"), direct to consumer customers, and professional learning service revenue from conferences and professional learning. The amount of the membership fees and services is considered commensurate with the services and benefits provided and, therefore, the entire amount is considered an exchange transaction. Professional learning service revenue is recorded at the point in time when the service is provided to the customer or when the customer is legally obligated to make payments. Services provided generally include professional learning designed to support educators. Membership fees revenue is recognized ratably over the contract period, which range in duration from one to five years, as services are simultaneously received and consumed by customers. Membership fees and services are recorded net of promotional discounts and hardship waivers totaling \$2,001,930 and \$1,816,509 for the years ended June 30, 2022 and 2021, respectively.

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Notes to Financial Statements**June 30, 2022 and 2021****NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****[4] Membership fees and services and deferred revenue: (continued)**

Membership fees collected, which relate to the following fiscal year and revenue recognition criteria are not yet met, are deferred until earned and are recorded as deferred revenue on the statements of financial position.

Disaggregated June 30, 2022 and 2021 revenue based upon the transfer of control to the customer is as follows:

	<u>2022</u>	<u>2021</u>
Revenue recognized at a point in time	\$ 1,484,736	\$ 480,927
Revenue recognized over time		
New schools	3,497,083	2,701,395
School renewals	5,033,034	4,514,795
Direct to consumer	<u>2,430,626</u>	<u>2,594,941</u>
Total membership fees and services revenue	<u>\$ 12,445,479</u>	<u>\$ 10,292,058</u>

The opening and closing balances of the July 1, 2020, June 30, 2021, and June 30, 2022 for grants and other receivable and deferred revenue are:

	<u>July 1, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>
Grants and other receivable	\$ 2,976,713	\$ 4,170,385	\$ 5,634,699
Deferred revenue	\$ (5,646,313)	\$ (7,467,542)	\$ (9,218,684)

[5] Contributions, private grants, and legacies:

Contributions, including unconditional promises to give, private grants, and legacies are recognized as revenues in the period received. These donations provide funding to be used to support the mission of the Organization. As the donors are not receiving a benefit as a result of these transactions, the donations are considered to be contributions to the Organization. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Unconditional promises to give (pledges) that are expected to be collected in excess of one year are recorded net of an appropriate discount (using a credit-adjusted rate) to reflect the present value of expected future cash flows. Allowances are recorded for estimated uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Contributions receivable are written-off in the period in which they are deemed uncollectible and expensed in the net asset category where the related receivable resides.

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. There were no conditional promises to give outstanding as of June 30, 2022 and 2021

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Notes to Financial Statements

June 30, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Split-interest agreements and other arrangements:

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

a) Beneficial interest in perpetual trusts held by others:

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

b) Beneficial interest in other charitable trusts:

Beneficial interests in other charitable trusts are arrangements in which the donor establishes and funds a trust that is administered by an outside third party. Under the terms of the trust, the Organization has the right to receive the income earned on its interest in the trust assets for a finite period of time and, in certain instances, the Organization is entitled to receive its interest in the trust assets upon the termination of the trust. The fair value of its interest in the trusts is computed at the present value (discount rates range from 5.38% to 5.77% as of June 30, 2022 and 2021) 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.

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Notes to Financial Statements

June 30, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Cash equivalents:

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

[10] Software development costs:

Software development costs incurred for software developed for external use are capitalized when the product reaches the point of technological feasibility through when the product is available for general release to customers. Software development costs are amortized beginning when the product is available for general release to customers. Such costs totaled \$ 508,710 and \$0 for the years ended June 30, 2022 and 2021, respectively, and are included within other assets on the statement of financial position. As of June 30, 2022, the product has not been made available for general release to customers. Therefore, no amortization has occurred for the year ended June 30, 2022.

[11] Paycheck Protection Program loan payable:

During the year ended June 30, 2021, the Organization elected to record the Paycheck Protection Program loan ("PPP loan") as a loan payable. Loan forgiveness was recognized once the conditions for loan forgiveness were met and the forgiveness amount is formally approved by the bank and the U.S. Small Business Administration ("SBA"). (See Note K.)

[12] 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.

[13] 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 on disposition of land, property and equipment, (2) settlement of lawsuit, (3) gain on forgiveness of Paycheck Protection Program loan payable, (4) net unrealized and realized gains/(losses) on investments and perpetual trusts, and (5) changes in value of split-interest agreements.

[14] 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, 2022 and 2021, 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, 2022 and 2021.

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Notes to Financial Statements

June 30, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] 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.

[16] Upcoming 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, 2021 with early adoption permitted.

[17] Subsequent events:

The Organization evaluated subsequent events through October 28, 2022, the date these financial statements were available to be issued.

[18] Reclassifications:

Certain prior-year financial statement items have been reclassified to conform to the current period financial statement presentation.

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Notes to Financial Statements June 30, 2022 and 2021

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, 2022 and 2021, the Organization had no specific plans or intentions to sell investments at amounts different than NAV. Because the fund of funds is not readily marketable, its estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed and the difference could be material.

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

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 36,473	\$ 79,921
Mutual funds	207,596	240,094
U.S. corporate stocks	246,565	246,576
Fund of funds	<u>17,164,357</u>	<u>21,865,304</u>
	<u>\$ 17,654,991</u>	<u>\$ 22,431,895</u>

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.

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Notes to Financial Statements
June 30, 2022 and 2021

NOTE D - FAIR VALUE HIERARCHY (CONTINUED)

	2022			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 36,473	\$ 36,473	\$ -	\$ -
Mutual funds	207,596	207,595	-	-
U.S. corporate stocks	246,565	246,565	-	-
Fund of funds measured at NAV (A)	<u>17,164,357</u>	<u>-</u>	<u>-</u>	<u>-</u>
	17,654,991	490,633	-	-
Split interest agreements and other arrangements	23,921	-	-	23,921
Beneficial interest in perpetual trusts	<u>5,055,383</u>	<u>-</u>	<u>-</u>	<u>5,055,383</u>
	<u>\$ 22,734,295</u>	<u>\$ 490,633</u>	<u>\$ -</u>	<u>\$ 5,079,304</u>
	2021			
	Total	Level 1	Level 2	Level 3
Money market funds	\$ 79,921	\$ 79,921	\$ -	\$ -
Mutual funds	240,094	240,094	-	-
U.S. corporate stocks	246,576	246,576	-	-
Fund of funds measured at NAV (A)	<u>21,865,304</u>	<u>-</u>	<u>-</u>	<u>-</u>
	22,431,895	566,591	-	-
Split interest agreements and other arrangements	59,800	-	-	59,800
Beneficial interest in perpetual trusts	<u>5,866,530</u>	<u>-</u>	<u>-</u>	<u>5,866,530</u>
	<u>\$ 28,358,225</u>	<u>\$ 566,591</u>	<u>\$ -</u>	<u>\$ 5,926,330</u>

(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, 2022 and 2021.

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Notes to Financial Statements
June 30, 2022 and 2021

NOTE D - FAIR VALUE HIERARCHY (CONTINUED)

The following table presents the Organization's activity for all Level 3 assets measured at fair value on an annual basis for the years ended June 30, 2022 and 2021:

	2022		
	Total Level 3	Beneficial Interest in Perpetual Trusts	Split Interest Agreements and Other Arrangements
Balance June 30, 2021	\$ 5,926,330	\$ 5,866,530	\$ 59,800
Distributions	(220,721)	(195,186)	(25,535)
Change in value of split interest agreements and other arrangements	(10,344)	-	(10,344)
Net realized and unrealized loss	<u>(615,961)</u>	<u>(615,961)</u>	<u>-</u>
Ending balance, June 30, 2022	<u>\$ 5,079,304</u>	<u>\$ 5,055,383</u>	<u>\$ 23,921</u>
	2021		
	Total Level 3	Beneficial Interest in Perpetual Trusts	Split Interest Agreements and Other Arrangements
Balance June 30, 2020	\$ 4,755,548	\$ 4,651,047	\$ 104,501
Distributions	(294,942)	(217,914)	(77,028)
Change in value of split interest agreements and other arrangements	32,327	-	32,327
Net realized and unrealized gain	<u>1,433,397</u>	<u>1,433,397</u>	<u>-</u>
Ending balance, June 30, 2021	<u>\$ 5,926,330</u>	<u>\$ 5,866,530</u>	<u>\$ 59,800</u>

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, 2022 and 2021, there were no transfers into or out of Levels 1, 2, or 3.

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Notes to Financial Statements
June 30, 2022 and 2021

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

Donor restricted endowments not retained in perpetuity are classified as net assets with donor restrictions – purpose restrictions until such amounts are appropriated for expenditure by the Organization and spent 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, 2022 and 2021:

	2022			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose	Perpetual	
Donor-restricted endowment funds	\$ -	\$ 4,538,093	\$ 7,913,380	\$ 12,451,473

	2021			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose	Perpetual	
Donor-restricted endowment funds	\$ -	\$ 7,936,994	\$ 7,913,380	\$ 15,850,374

Net assets with donor restrictions – perpetual includes \$5,055,383 and \$5,866,530, respectively, at June 30, 2022 and 2021, of beneficial interest in perpetual trusts which are not reflected above as a component of perpetually restricted endowment funds.

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Notes to Financial Statements
June 30, 2022 and 2021

NOTE E - ENDOWMENT (CONTINUED)

[1] Interpretation of relevant law: (continued)

Changes in endowment net assets for the years ended June 30, 2022 and 2021 are as follows:

	2022			
	Without Donor	With Donor Restrictions		Total
	Restrictions	Purpose	Perpetual	
Endowment net assets, at June 30, 2021	\$ -	\$ 7,936,994	\$ 7,913,380	\$ 15,850,374
Investment return:				
Investment income, net of fees		2,225,998		2,225,998
Net depreciation (realized and unrealized)	-	(4,934,889)	-	(4,934,889)
Total investment return	-	(2,708,891)	-	(2,708,891)
Expenditure of appropriated endowment net assets	-	(690,010)	-	(690,010)
Endowment net assets, at June 30, 2022	<u>\$ -</u>	<u>\$ 4,538,093</u>	<u>\$ 7,913,380</u>	<u>\$ 12,451,473</u>
	2021			
	Without Donor	With Donor Restrictions		
	Restrictions	Purpose	Perpetual	Total
Endowment net assets, at June 30, 2020	\$ -	\$ 4,741,804	\$ 8,296,537	\$ 13,038,341
Investment return:				
Investment income, net of fees	-	139,839	133	139,972
Net appreciation (realized and unrealized)	-	3,893,421	3,577	3,896,998
Total investment return	-	4,033,260	3,710	4,036,970
Expenditure of appropriated endowment net assets ¹	-	(838,070)	(386,867)	(1,224,937)
Endowment net assets, at June 30, 2021	<u>\$ -</u>	<u>\$ 7,936,994</u>	<u>\$ 7,913,380</u>	<u>\$ 15,850,374</u>

¹ – Net assets appropriated by the Board totaled \$2,440,347 during the year ended June 30, 2021, \$1,215,411 as of June 30, 2022, was not yet spent and is not reflected above as a component of expenditure of appropriated endowment net assets. During the year ended June 30, 2021, the Organization reviewed all perpetual funds and determined certain significantly older funds previously determined to be perpetually restricted were not required to be restricted and have been expended from endowment net assets.

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Notes to Financial Statements
June 30, 2022 and 2021

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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Net Assets With Donor Perpetual Restrictions:		
The portion of perpetual endowment funds that are required to be retained permanently by explicit donor stipulation	<u>\$ 7,913,380</u>	<u>\$ 7,913,380</u>
Total endowment funds classified as net assets with donor perpetual restrictions	<u>\$ 7,913,380</u>	<u>\$ 7,913,380</u>
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)	<u>\$ 775,521</u>	<u>\$ 1,593,688</u>
With purpose restrictions (see Note H)	<u>2,976,647</u>	<u>5,127,895</u>
	<u>3,752,168</u>	<u>6,721,583</u>
The portion of endowment funds appropriated but not yet spent:		
With purpose restrictions (see Note H)	<u>785,925</u>	<u>1,215,411</u>
Total endowment funds classified as net assets with donor purpose restrictions	<u>\$ 4,538,093</u>	<u>\$ 7,936,994</u>

[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. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions – perpetual restrictions. For the year ended June 31, 2022 and 2021 there were no funds with deficiencies.

[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, 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.

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Notes to Financial Statements**June 30, 2022 and 2021****NOTE E - ENDOWMENT (CONTINUED)****[4] Appropriation policy:**

The Organization has a policy to allow for appropriation, a distribution each year of 7% 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. The Board of Trustees approved an appropriation of \$2,440,347 from earnings of endowment net assets for expenditure, during fiscal year 2021 for current and future years. Of the approved appropriation \$690,010 and \$1,224,937 were spent and released from endowment net assets, during fiscal years 2022 and 2021, respectively.

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>	<u>Depreciable Life</u>
Land	\$ -	\$ 856,510	
Construction in progress	164,096	135,175	
Buildings and improvements	-	6,890,453	10 - 40 years
Recording and office equipment	<u>5,346,279</u>	<u>13,660,432</u>	3 - 10 years
	5,510,375	21,542,570	
Less: accumulated depreciation	<u>(5,049,341)</u>	<u>(19,159,629)</u>	
Property and equipment, net	<u>\$ 461,034</u>	<u>\$ 2,382,941</u>	

Depreciation expense was \$181,419 and \$312,947 for the years ended June 30, 2022 and 2021, respectively.

During 2022, the Organization sold its building and land located in New Jersey for a purchase price of approximately \$6.5 million. Concurrent with the sale, the Organization entered into a lease agreement (see Note L).

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2022 and 2021. In the opinion of management, there was no impairment during the years ended June 30, 2022 and 2021. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

NOTE G - DONATED SERVICES, GOODS AND RENT

The Organization is dependent on volunteer time to record new audiobooks. The recording of the audiobooks requires specialized skills of which would have to be provided by paid professionals if not for the skilled volunteers. Due to this, the Organization has recorded donated services for the recording of the audiobooks.

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Notes to Financial Statements
June 30, 2022 and 2021

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

To properly recognize the significant role of volunteers and contributions of services in furtherance of the Organization's mission, the Organization has adopted procedures to both accumulate and measure the fair value of certain donated services related to the recording of books by professionals. Donated services for the Organization consist primarily of recording studio time incurred/contributed by volunteers, which has been valued at \$54 and \$48 per hour for the years ended June 30, 2022 and 2021, 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 \$1,416,926 and \$2,879,714, and donated books of \$880 for the year ended June 30, 2021.

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. 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 year ended June 30, 2021. The contributed rent recognized for all donated office space was \$ 0 and \$20,250 for the year ended June 30, 2022 and 2020, respectively, 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<u>Subject to expenditure for a specified purpose:</u>		
Blind and Visually-Impaired	\$ 159,672	\$ 365,057
Content development (audiobooks & learning solutions)	128,247	121,290
Other	123,145	145,425
	<u>411,064</u>	<u>631,772</u>
<u>Subject to Organization's spending policy and appropriation:</u>		
National Achievement Awards (scholarships)	2,561,825	3,573,080
Development, production and distribution of learning resources – nationally	414,821	829,490
Development, production and distribution of learning resources – regionally	785,925	1,940,736
	<u>3,762,571</u>	<u>6,343,306</u>
With purpose restriction	775,521	1,593,688
	<u>4,538,092</u>	<u>7,936,994</u>
	4,949,156	8,568,766
Beneficial interests in split-interest agreements	23,921	59,800
Contributions which are unavailable for expenditure until received	3,982,214	1,600,622
	<u>\$ 8,955,291</u>	<u>\$ 10,229,188</u>

LEARNING ALLY, INC.
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Notes to Financial Statements
June 30, 2022 and 2021

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 for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
National Achievement Awards (scholarships)	\$ 2,390,601	\$ 2,390,601
Development, production and distribution of learning resources – nationally	1,467,291	1,467,291
Development, production and distribution of learning resources – regionally	<u>1,052,719</u>	<u>1,052,719</u>
With purpose restriction	4,910,611	4,910,611
General operations	<u>3,002,769</u>	<u>3,002,769</u>
Endowment funds required to be retained	7,913,380	7,913,380
Beneficial interests in charitable trusts held by others	<u>5,055,383</u>	<u>5,866,530</u>
Net assets with perpetual restrictions	<u>\$ 12,968,763</u>	<u>\$ 13,779,910</u>

[3] Released from perpetual and 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<u>Satisfaction of purpose restrictions:</u>		
Content development (audiobooks & learning solutions)	\$ 17,150	\$ 930,532
Blind and Visually-Impaired	205,385	632,472
Implementation of educational solutions in specific schools	908,434	131,099
Subsidizing of individual memberships	<u>15,774</u>	<u>22,096</u>
	<u>1,146,743</u>	<u>1,716,199</u>
<u>Earnings on donor-restricted endowments:</u>		
Expenditure of net assets appropriated by the Board ^{1,2}	<u>690,010</u>	<u>1,224,936</u>
<u>Distributions (proceeds are not restricted by donors):</u>		
Beneficial interests in split-interest agreements	<u>25,497</u>	<u>77,028</u>
<u>Expiration of time restrictions:</u>		
Payments on contributions receivables & annuities	<u>1,453,170</u>	<u>846,372</u>
Net assets released from donor restrictions	<u>\$ 3,315,420</u>	<u>\$ 3,864,535</u>

LEARNING ALLY, INC.

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Notes to Financial Statements**June 30, 2022 and 2021****NOTE H - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)****[3] Released from perpetual and purpose restricted net assets: (continued)**

- ¹ – Net assets appropriated by the Board but not spent as of June 30, 2022 were \$872,347, which are not reflected above as a component of appropriation of endowment net assets for expenditures.
- ² – During the year ended June 30, 2021, the Organization reviewed all perpetual funds and determined certain significantly older funds previously determined to be perpetually restricted were not required to be restricted and have been expended from endowment net assets.

NOTE I - CONTRIBUTIONS RECEIVABLE

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

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 2,380,222	\$ 282,592
One to five years	250,000	-
More than five years	<u>1,510,000</u>	<u>1,510,000</u>
	4,140,222	1,792,592
Less:		
Allowance for uncollectible promises	(27,500)	(30,122)
Present value discount (3.09% to 3.24% in 2022 and 3.09% to 3.19% in 2021)	<u>(130,508)</u>	<u>(161,848)</u>
Contributions receivable, net	<u>\$ 3,982,214</u>	<u>\$ 1,600,622</u>

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 \$171,366 and \$320,737, respectively, for the years ended June 30, 2022 and 2021 be made.

NOTE K - PAYMENT PROTECTION PROGRAM (PPP) LOAN PAYABLE

On March 27, 2020, Congress enacted the Coronavirus Aid Relief, and Economic Security Act ("CARES Act"). One component of that Act was PPP under the auspices of the SBA. On April 16, 2020, the Organization received a \$2,082,100 PPP loan. Neither principle nor interest was due through June 18, 2021, as determined by the SBA and the bank. On June 18, 2021, the entire loan was forgiven by the SBA and is recorded as gain on forgiveness of Paycheck Protection Program loan payable on the statement of activities.

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Notes to Financial Statements
June 30, 2022 and 2021

NOTE L - COMMITMENTS AND CONTINGENCIES

[1] Commitments:

The Organization is obligated under several service contracts and operating leases that expire at various dates through 2032. The approximate future minimum annual payments due under noncancelable service contracts and operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 1,252,000
2024	509,000
2025	388,000
2026	365,000
2027-2032	<u>2,252,000</u>
Total	<u>\$ 4,766,000</u>

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. Total rent expense for all operating office leases, inclusive of amounts for donated space, approximated \$163,000 and \$20,000 for the years ended June 30, 2022 and 2021, respectively.

On February 3, 2022 the Organization entered into a purchase and sale agreement (the "Purchase and Sale Agreement") in which the third party purchaser obtained control of the assets. Pursuant to the terms of the Purchase and Sale Agreement, the Organization sold its building and land (the "Property") located in New Jersey for a purchase price of approximately \$6.5 million. The Organization incurred transaction costs of approximately \$.3 million and the Property had a carrying value of approximately \$1.9 million resulting in a gain of approximately \$4.9 million. Concurrent with the sale, the Organization entered into a ten-year lease agreement, whereby the Organization leased back the Property at an initial annual rent of \$320,000 subject to annual rental increases of 3.5%. Under the lease agreement, the Organization renewal options to extend the lease term.

[2] Litigation:

The Organization is a party to litigation and other claims in the ordinary course of business. During the year ended June 30, 2021, the Organization settled a lawsuit and received proceeds of \$1,500,000. In the opinion of management, besides the aforementioned lawsuit settlement, the ultimate resolution of these matters will not have a significant effect on the financial position, changes in net assets or cash flows of the Organization.

[3] Coronavirus:

The extent of the impact of the coronavirus ("COVID-19") outbreak on the financial performance of the Organization will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions, and the impact of COVID-19 on the financial markets and the overall economy, all of which are highly uncertain and cannot be predicted. However, in response to COVID-19, the Organization has adjusted its operations to continue to serve its customers. Overall, the Organization has managed adverse effects and will continue to monitor the potential impact in the future.

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Notes to Financial Statements
June 30, 2022 and 2021

NOTE M - GRANTS AND OTHER RECEIVABLES

Grants and other receivables consisted of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Government grants	\$ 499,214	\$ 833,025
Customer and other receivables	<u>5,135,485</u>	<u>3,337,360</u>
Grants and other receivables	<u>\$ 5,634,699</u>	<u>\$ 4,170,385</u>

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 periodically based on current trends and circumstances not anticipated in the original budget. Revision, if necessary, to the operating plan are implemented to ensure cash from operations is within the range of break-even to plus/minus \$2 million.

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

In the event the Organization would need to rely on its reserves, the components of its investments at June 30, 2022 and 2021, without donor restrictions was approximately \$5.0 million and \$6.4 million, respectively. The Organization's total investment balance at June 30, 2022 and 2021 was approximately \$17.5 million and \$22.2 million, respectively, of which \$7.9 million and \$7.9 million is permanently restricted by donors, \$4.6 million and \$7.9 million is available upon the Organization's Board appropriating funds, and \$5.0 million and \$6.4 million, respectively, is without donor restrictions.

As of June 30, 2022 and 2021, the Organization's cash and cash equivalents plus the component of its investments without donor restrictions relative to its payables and current obligations, including capital lease, commitments through 2032 but excluding deferred revenue, was 1.08 to 1 and 2.94 to 1, respectively. In addition, if needed, \$4.6 million is available for development, production and distribution of learning resources, National Achievement Awards or unrestricted purposes, upon the Organization's Board appropriating such funds, as of June 30, 2022.

Financial assets available for general expenditures within one year of the statements of financial position as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,095,396	\$ 1,733,691
Grants and other receivables expected to be collected that are not restricted	3,474,121	2,493,497
Contribution receivables expected to be collected that are not restricted	2,102,723	252,470
Investments without donor restrictions	<u>4,981,222</u>	<u>6,416,865</u>
Total	<u>\$ 14,653,462</u>	<u>\$ 10,896,523</u>