

Read to Lead, Inc.

Financial Statements

June 30, 2021 and 2020

Independent Auditors' Report

Board of Directors Read to Lead, Inc.

We have audited the accompanying financial statements of Read to Lead, Inc. ("RTL"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Read to Lead, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedule of operating results on pages 22 to 24 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 additional 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole.

PKF O'Connor Davies, LLP

November 22, 2021

Read to Lead, Inc.

Statements of Financial Position

	June 30	
	2021	2020
ASSETS		
Cash and cash equivalents	\$ 853,590	\$ 1,439,598
Restricted and endowment cash	394,754	394,754
Investments	2,172,731	1,736,575
Contributions receivable, net	1,596,679	2,062,981
Prepaid expenses and other assets	59,277	69,823
Property and equipment, net	98,574	59,664
Product development, net	1,824,189	1,831,547
	<u>\$ 6,999,794</u>	<u>\$ 7,594,942</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 424,103	\$ 190,920
Deferred rent	227,506	190,811
Payroll Protection Program loan payable	-	388,098
Total Liabilities	<u>651,609</u>	<u>769,829</u>
Net Assets		
Without Donor Restrictions		
Operating	3,684,166	3,678,623
Board designated	580,715	106,715
Total Without Donor Restrictions	<u>4,264,881</u>	<u>3,785,338</u>
With Donor Restrictions		
Temporary in nature	1,833,304	2,789,775
Perpetual in nature	250,000	250,000
Total With Donor Restrictions	<u>2,083,304</u>	<u>3,039,775</u>
Total Net Assets	<u>6,348,185</u>	<u>6,825,113</u>
	<u>\$ 6,999,794</u>	<u>\$ 7,594,942</u>

See notes to financial statements

Read to Lead, Inc.

Statement of Activities Year Ended June 30, 2021

	Without Donor Restrictions			With Donor Restrictions			2021 Total	2020 Total
	Operating	Board Designated	Total	Temporary in Nature	Perpetual in Nature	Total		
SUPPORT AND REVENUE								
Contributions								
Individuals	\$ 409,375	\$ -	\$ 409,375	\$ 30,138	\$ -	\$ 30,138	\$ 439,513	\$ 1,254,226
Foundations and trusts	926,746	-	926,746	1,242,732	-	1,242,732	2,169,478	2,362,109
Corporations	41,649	-	41,649	175,000	-	175,000	216,649	151,153
Small business administration Economic Injury Disaster								
Loan grant revenue	-	-	-	-	-	-	-	10,000
Donated goods and services	153,961	-	153,961	-	-	-	153,961	288,347
Other revenue	500	-	500	-	-	-	500	54,800
Interest and dividend revenue	1,359	-	1,359	-	-	-	1,359	11,112
Realized and unrealized gain on investments	12,824	-	12,824	-	-	-	12,824	5,353
Payroll Protection Program loan forgiveness	388,098	-	388,098	-	-	-	388,098	-
Net assets released from restrictions	2,404,341	-	2,404,341	(2,404,341)	-	(2,404,341)	-	-
Total Support and Revenue	4,338,853	-	4,338,853	(956,471)	-	(956,471)	3,382,382	4,137,100
EXPENSES								
Educational Programs								
Direct support to partners	1,093,303	-	1,093,303	-	-	-	1,093,303	1,492,072
Curriculum and resources	1,339,180	-	1,339,180	-	-	-	1,339,180	1,213,320
Research and assessment	340,436	-	340,436	-	-	-	340,436	254,439
Total Educational Programs	2,772,919	-	2,772,919	-	-	-	2,772,919	2,959,831
Management and general	439,960	-	439,960	-	-	-	439,960	497,602
Fundraising	646,431	-	646,431	-	-	-	646,431	649,076
Total Expenses	3,859,310	-	3,859,310	-	-	-	3,859,310	4,106,509
Change in Net Assets Before Other Changes	479,543	-	479,543	(956,471)	-	(956,471)	(476,928)	30,591
OTHER CHANGES								
Transfer from operating fund	(474,000)	474,000	-	-	-	-	-	-
	5,543	474,000	479,543	(956,471)	-	(956,471)	(476,928)	30,591
NET ASSETS								
Beginning of year	3,678,623	106,715	3,785,338	2,789,775	250,000	3,039,775	6,825,113	6,794,522
End of year	\$ 3,684,166	\$ 580,715	\$ 4,264,881	\$ 1,833,304	\$ 250,000	\$ 2,083,304	\$ 6,348,185	\$ 6,825,113

See notes to financial statements

Read to Lead, Inc.

Statement of Activities Year Ended June 30, 2020

	Without Donor Restrictions			With Donor Restrictions			Total
	Operating	Board Designated	Total	Temporary in Nature	Perpetual in Nature	Total	
SUPPORT AND REVENUE							
Contributions							
Individuals	\$ 767,226	\$ -	\$ 767,226	\$ 487,000	\$ -	\$ 487,000	\$ 1,254,226
Foundations and trusts	877,925	-	877,925	1,484,184	-	1,484,184	2,362,109
Corporations	151,153	-	151,153	-	-	-	151,153
Small business administration Economic Injury Disaster							
Loan grant revenue	10,000	-	10,000	-	-	-	10,000
Donated goods and services	288,347	-	288,347	-	-	-	288,347
Other revenue	54,800	-	54,800	-	-	-	54,800
Interest and dividend revenue	11,112	-	11,112	-	-	-	11,112
Realized and unrealized gain on investments	5,353	-	5,353	-	-	-	5,353
Net assets released from restrictions	1,705,014	-	1,705,014	(1,705,014)	-	(1,705,014)	-
Total Support and Revenue	<u>3,870,930</u>	<u>-</u>	<u>3,870,930</u>	<u>266,170</u>	<u>-</u>	<u>266,170</u>	<u>4,137,100</u>
EXPENSES							
Educational Programs							
Direct support to partners	1,492,072	-	1,492,072	-	-	-	1,492,072
Curriculum and resources	1,213,320	-	1,213,320	-	-	-	1,213,320
Research and assessment	254,439	-	254,439	-	-	-	254,439
Total Educational Programs	2,959,831	-	2,959,831	-	-	-	2,959,831
Management and general	497,602	-	497,602	-	-	-	497,602
Fundraising	649,076	-	649,076	-	-	-	649,076
Total Expenses	<u>4,106,509</u>	<u>-</u>	<u>4,106,509</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,106,509</u>
Change in Net Assets Before Other Changes	(235,579)	-	(235,579)	266,170	-	266,170	30,591
OTHER CHANGES							
Transfer from operating fund	(106,715)	106,715	-	-	-	-	-
Change in Net Assets	(342,294)	106,715	(235,579)	266,170	-	266,170	30,591
NET ASSETS							
Beginning of year	<u>4,020,917</u>	<u>-</u>	<u>4,020,917</u>	<u>2,523,605</u>	<u>250,000</u>	<u>2,773,605</u>	<u>6,794,522</u>
End of year	<u>\$ 3,678,623</u>	<u>\$ 106,715</u>	<u>\$ 3,785,338</u>	<u>\$ 2,789,775</u>	<u>\$ 250,000</u>	<u>\$ 3,039,775</u>	<u>\$ 6,825,113</u>

See notes to financial statements

Read to Lead, Inc.

Statement of Functional Expenses Year Ended June 30, 2021

	Educational Programs				Management and General	Fundraising	2021 Total	2020 Total
	Direct Support to Partners	Curriculum and Resources	Research and Assessment	Total Educational Programs				
Salaries and benefits	\$ 372,932	\$ 188,841	\$ 233,564	\$ 795,337	\$ 136,456	\$ 480,722	\$ 1,412,515	\$ 1,578,346
Professional fees	258,984	172,282	2,867	434,133	182,769	66,169	683,071	730,082
Donated legal services	17,317	96,623	3,413	117,353	3,508	3,668	124,529	129,299
Audit	-	-	-	-	39,240	-	39,240	34,321
Occupancy fees	187,995	104,357	36,939	329,291	37,955	39,703	406,949	399,148
Office expenses	6,626	487	107	7,220	1,369	1,562	10,151	33,744
Communications	4,676	2,932	922	8,530	1,606	991	11,127	12,210
Repairs and maintenance	5,065	2,820	998	8,883	1,025	1,073	10,981	9,010
Depreciation and amortization	4,322	2,406	852	7,580	875	915	9,370	4,603
Amortization of product development costs	-	698,848	-	698,848	-	-	698,848	613,800
Product supplies	4,774	-	-	4,774	-	-	4,774	7,755
Travel and conferences	601	6	78	685	171	2	858	96,290
Donated printing services	14,980	462	164	15,606	168	13,658	29,432	159,048
Recruiting and hiring	2,033	1,132	401	3,566	411	431	4,408	8,659
Insurance	9,816	5,466	1,935	17,217	1,989	2,080	21,286	18,826
Fees	67,893	34,730	28,114	130,737	24,336	13,350	168,423	153,142
Software support	25,603	22,429	26,225	74,257	5,163	5,535	84,955	32,910
Advertising	85,041	-	-	85,041	-	-	85,041	62,381
Other	24,645	5,359	3,857	33,861	2,919	16,572	53,352	22,935
	<u>\$ 1,093,303</u>	<u>\$ 1,339,180</u>	<u>\$ 340,436</u>	<u>\$ 2,772,919</u>	<u>\$ 439,960</u>	<u>\$ 646,431</u>	<u>\$ 3,859,310</u>	<u>\$ 4,106,509</u>

See notes to financial statements

Read to Lead, Inc.

Statement of Functional Expenses
Year Ended June 30, 2020

	Educational Programs				Management and General	Fundraising	Total
	Direct Support to Partners	Curriculum and Resources	Research and Assessment	Total Educational Programs			
Salaries and benefits	\$ 525,128	\$ 259,771	\$ 156,931	\$ 941,830	\$ 165,229	\$ 471,287	\$ 1,578,346
Professional fees	352,720	155,385	26,562	534,667	179,949	15,466	730,082
Donated legal services	59,929	28,588	7,836	96,353	16,098	16,848	129,299
Audit	-	-	-	-	34,321	-	34,321
Occupancy fees	185,315	88,124	24,153	297,592	49,622	51,934	399,148
Office expenses	14,747	4,415	3,661	22,823	2,890	8,031	33,744
Communications	5,901	2,775	679	9,355	1,395	1,460	12,210
Repairs and maintenance	4,164	1,987	545	6,696	1,143	1,171	9,010
Depreciation and amortization	2,133	1,018	279	3,430	573	600	4,603
Amortization of product development costs	-	613,800	-	613,800	-	-	613,800
Product supplies	3,240	-	4,515	7,755	-	-	7,755
Travel and conferences	52,416	6,404	595	59,415	2,922	33,953	96,290
Donated printing services	132,622	5,210	1,428	139,260	2,934	16,854	159,048
Recruiting and hiring	4,013	1,915	525	6,453	1,078	1,128	8,659
Insurance	8,726	4,162	1,141	14,029	2,344	2,453	18,826
Fees	58,434	29,015	21,415	108,864	26,609	17,669	153,142
Software support	14,654	8,285	1,916	24,855	3,936	4,119	32,910
Advertising	62,381	-	-	62,381	-	-	62,381
Other	5,549	2,466	2,258	10,273	6,559	6,103	22,935
	<u>\$ 1,492,072</u>	<u>\$ 1,213,320</u>	<u>\$ 254,439</u>	<u>\$ 2,959,831</u>	<u>\$ 497,602</u>	<u>\$ 649,076</u>	<u>\$ 4,106,509</u>

See notes to financial statements

Read to Lead, Inc.

Statements of Cash Flows

	Year Ended June 30	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (476,928)	\$ 30,591
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	708,218	618,403
Discount to present value of receivables	(11,732)	28,316
Realized and unrealized gain on investments	(12,824)	(5,353)
Amortization of deferred rent	36,695	45,507
Payroll Protection Program loan forgiveness	(388,098)	-
Changes in operating assets and liabilities		
Contributions receivable	478,034	584,689
Prepaid expenses and other assets	10,546	(27,750)
Accounts payable and accrued expenses	233,183	(21,909)
Net Cash from Operating Activities	<u>577,094</u>	<u>1,252,494</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,206,283	608,904
Purchase of investments	(1,629,615)	(2,340,126)
Purchase of equipment	(48,280)	-
Product development costs	(691,490)	(321,616)
Net Cash from Investing Activities	<u>(1,163,102)</u>	<u>(2,052,838)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Payroll Protection Program loan	<u>-</u>	<u>388,098</u>
Change in Cash and Cash Equivalents and Restricted and Endowment Cash	(586,008)	(412,246)
CASH AND CASH EQUIVALENTS AND RESTRICTED AND ENDOWMENT CASH		
Beginning of year	<u>1,798,333</u>	<u>2,210,579</u>
End of year	<u>\$ 1,212,325</u>	<u>\$ 1,798,333</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED AND ENDOWMENT CASH		
Cash and Cash Equivalents	\$ 853,590	\$ 1,439,598
Restricted and endowment cash	<u>394,754</u>	<u>394,754</u>
	<u>\$ 1,248,344</u>	<u>\$ 1,834,352</u>

See notes to financial statements

Read to Lead, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

1. Nature of Organization and Tax Status

Read to Lead, Inc. ("RTL"), previously known as Classroom, Inc. until it changed its name during January 2021, is a nonprofit organization that helps students in high-poverty communities build literacy and leadership skills. By creating digital learning games and curricula set in the professional world and supporting educators in creating student-centered classrooms, RTL invites students to take charge of their learning.

RTL believes that when students take on the leadership role in learning games, they read more closely, think critically, and become better problem solvers. RTL's research shows that students (especially those struggling with literacy) improve in their reading and writing achievement, find motivation in being the leader, and see the true connection between school and their future.

RTL accomplishes its mission by providing various programs including:

Education Programs:

Direct Support to Partners

RTL partners with schools and community-based organizations in high-poverty communities across the United States to provide turn-key curriculum and resources, along with unique workplace literacy learning game experiences, to support school day and out-of-school time learning and engagement.

In addition, to improve student outcomes RTL offers educators in-person and virtual coaching support and transforms the way educators uses project-based and personalized learning tools. Some of the RTL's school partner sites also serve as "learning labs," informing digital production and ensuring that RTL is always designing from real-life experiences.

Curriculum and Resources for Educators

RTL creates digital learning games and curriculum set in the professional world that foster students' literacy and leadership skills and connect school to life in the workplace. RTL's suite of literary learning games, the *Read to Lead* series, helps students develop advanced literacy skills, increases career readiness, and builds 21st Century skills such as persistence and decision-making. The learning games and curriculum, along with professional development resources for educators are freely accessible online for both school day and out-of-school time use.

Through its digital platform, RTL reaches educators and students nationwide. Any educator can register for free and have access to RTL's learning games and curriculum.

Read to Lead, Inc.

Notes to Financial Statements June 30, 2021 and 2020

1. Nature of Organization and Tax Status (*continued*)

Research and Assessment

RTL conducts research to assess the impact of its programs on students and to provide regular feedback that enables continuous improvement. Both internal and external evaluations have consistently shown that RTL's programs effectively improve students' literacy, reading attitudes and behaviors, 21st Century skills, and college- and career-readiness.

Tax Status

RTL's is exempt from federal income taxes pursuant to Section 501 (c) (3) of the Internal Revenue Code and from state and local taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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. Accordingly, actual results could differ from those estimates.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, RTL's net assets are classified as with or without donor restrictions. Net assets without donor restrictions include funds having no restriction as to use or purpose imposed by donors. Net assets with donor restrictions are those whose use is limited by donors by a specific time period or purpose and may include net assets to be held in perpetuity.

Board Designated Net Assets

The Board of Directors, at its discretion, designates funds from net assets without donor restrictions for specific purposes. At June 30, 2021 and 2020, amounts that were designated for future projects was approximately \$581,000 and \$107,000.

Cash and Cash Equivalents and Restricted and Endowment Cash

RTL considers all highly liquid financial instruments having a maturity of three months or less at the time of purchase to be cash equivalents.

Read to Lead Inc.

Notes to Financial Statements June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (*continued*)

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions on the statements of activities. Conditional promises to give are not included as support until the conditions are substantially met.

RTL's management periodically evaluates receivable balances to determine whether an allowance for doubtful accounts should be established to cover amounts determined to be uncollectible. At June 30, 2021 and 2020, no such allowance was considered necessary.

Fair Value Measurements

RTL follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices for similar assets and liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investment Valuation and Investment Income Recognition

Investments are valued at fair value in the statements of financial position. Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Product Inventories

Product inventories consist primarily of printed learning materials and other educational supplies to be supplied to schools and other educational organizations and are valued at the lower of cost or net realizable value, using the average cost method of valuation.

Costs incurred to ship product inventories to program participants are expensed as incurred. These costs are reported as "direct support to partners" expense in the accompanying statements of activities.

Read to Lead, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (*continued*)

Product Inventories (continued)

RTL has digitized most of its printed learning materials and other educational supplies and made them available to educators for viewing and download via one of RTL's newest digital assets, an educator toolkit. Therefore, RTL has not added new physical printed inventory during fiscal years 2021 and 2020.

Property and Equipment

Property and equipment are stated at cost at the time of purchase or at fair value at the date of donation. RTL capitalizes additions of property and equipment in excess of \$1,000 cost or fair value, if donated. Repairs and maintenance costs are expensed as incurred.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years. Leasehold improvements are amortized over the remaining term of the respective lease or the useful life of the improvement, whichever is shorter.

Impairment of Long-Lived Assets

Long-lived assets such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. RTL records impairment losses on long-lived assets used in operations when the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. No impairment charges were recognized as of June 30, 2021.

Conditional Asset Retirement Obligations

RTL accounts for Conditional Asset Retirement Obligations ("CARO") in accordance with U.S. GAAP, which defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The fair value of the CARO is recorded on a discounted basis and accreted over time for the change in fair value. Management has determined that there are no CARO liabilities that are required to be recorded at June 30, 2021 and 2020.

Read to Lead, Inc.

Notes to Financial Statements June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (*continued*)

Product Development

In fiscal 2013, RTL began the development of *After the Storm*, the first in a suite of middle school-level learning games. In fiscal 2014, *After the Storm* was completed in addition to a project consisting of three web-enabled simulations. In fiscal 2016, RTL developed a second learning game, *Community in Crisis* and began the development of the third learning game, *Vital Signs*. In fiscal 2017, RTL continued to develop *Vital Signs*, and began development of a digital platform and educator toolkit.

In fiscal 2018, RTL completed the development of *Vital Signs* and the educator toolkit. RTL packages the three digital learning games as a series titled *Read to Lead*. In addition, RTL placed a digital platform (the "Platform") in service. The Platform is the technical infrastructure that connects all of RTL's digital assets (the *Read to Lead* series and educator toolkit) into a seamless experience for educators and students. RTL capitalizes only direct labor costs associated with the web-enabling and development of all these products.

Long-lived assets including intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the years ended June 30, 2021 and 2020, management determined that no impairment loss needs to be recognized.

Amortization of these costs commenced upon completion of each project using the straight-line method over the estimated useful lives of 5 to 7 years. Minimum future amortization expense are as follows:

2022	\$ 705,253
2023	450,281
2024	366,510
2025	208,885
2026	93,260
	<u>\$1,824,189</u>

As of June 30, 2021 and 2020, accumulated amortization on completed games was \$2,959,985 and \$2,261,137. No fully amortized product development costs were written off during the years ended June 30, 2021 and 2020.

Deferred Rent

RTL entered into a lease agreement for its office space containing an escalation clause that requires normalization of the rental expense over the life of the lease. The resulting deferred rent is reflected in the accompanying statements of financial position.

Read to Lead, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (*continued*)

Contributions and Other Revenue

Contributions are recorded as revenue at the time of receipt of the unconditional pledge of cash or other assets. Contributions are considered available for general use, unless the donors restrict the use thereof based on a time, purpose or a perpetual basis. Contributions to be received after one year are discounted at an appropriate interest rate, commensurate with the risk involved.

RTL receives fees from the sale of its products and services to schools and districts. Amounts received in advance, if any, are recorded as deferred revenue until the related product is delivered or the services are performed, at which time they are shown as revenue.

Contribution of services is recognized if the services rendered (a) create or enhance non-financial assets or (b) require specialized skills provided by individuals possessing those skills and that would typically be purchased if not provided by donation. Donated securities are recorded at fair value at the date of the gift and are generally sold immediately upon receipt by RTL.

Functional Allocation of Expenses

The costs of RTL providing the various programs and activities have been summarized on a functional basis in the statements of activities. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain expenses are attributable to more than one program or supporting function and have been allocated in a reasonable ratio by management. These general, operational, and office expenses include salaries and benefits, professional fees, occupancy fees, one-time moving expenses, office expenses, communications, repairs and maintenance, depreciation and amortization, insurance, and software support. These costs are allocated based on number of office workspaces used by each program and support function.

Advertising

Advertising expense is recognized as incurred. For the years ended June 30, 2021 and 2020, RTL incurred digital media advertising expenses totaling \$85,041 and \$62,381.

Accounting for Uncertainty in Income Taxes

RTL recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that RTL had no uncertain tax positions that would require financial statement recognition or disclosure. RTL is no longer subject to examinations by the applicable taxing jurisdictions for the periods prior to 2018.

Read to Lead, Inc.

Notes to Financial Statements June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (*continued*)

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is November 22, 2021.

3. Concentration of Credit Risk and Other

Financial instruments that potentially subject RTL to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash and endowment cash, investments and contributions receivable, which are expected to be collected in the normal course of business. RTL maintains its cash in bank deposits in one financial institution. At times, these accounts exceed the federal insurance limits during fiscal 2021 and 2020.

At June 30, 2021, receivables from three donors amounted to approximately 67% of total gross contributions receivable. At June 30, 2020, receivables from four donors amounted to approximately 70% of total gross contributions receivable.

4. Restricted and Endowment Cash

The restricted cash is the amount required to secure a letter of credit used as the security deposit per the new lease agreement (Note 12).

The endowment consists entirely of individual donor-restricted funds, in the amount of \$250,000, established for a variety of purposes. RTL does not have any funds designated by the Board of Directors to function as an endowment.

The Board of Directors has interpreted the New York State Uniform Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the historic dollar value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

Interpretation of Relevant Law

As a result of this interpretation, RTL classifies as net assets with donor restrictions to be held in perpetuity:

- The original value of gifts and subsequent gifts donated to the endowment, and
- Accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Read to Lead, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

4. Restricted and Endowment Cash (*continued*)

Changes in Endowment Net Assets

There were no changes in the endowment net assets during fiscal years 2021 and 2020. At June 30, 2021 and 2020, the endowment net assets were held by RTL in a savings account, which earns nominal interest.

Return Objectives and Risk Parameters

RTL has adopted an investment approach for endowment assets that attempts to preserve the principal of the endowment assets. Under this approach, as approved by the Board of Directors, the endowment assets are invested in a prudent manner that is intended to preserve the principal, with a moderate rate of return, and a moderate level of investment risk.

Strategies Employed for Achieving Objectives

As of June 30, 2021 and 2020, RTL's endowment assets are cash-based investments in an effort to preserve the capital. RTL continually assesses market conditions and, at the appropriate time, will exercise prudent management to meet its long-term investment objective of diversifying its assets and achieving investment returns.

Spending Policy

The net capital appreciation/depreciation, interest and dividends are without donor restrictions. The interest and dividends are transferred to RTL's checking account to support general operations.

5. Investments

Investments are carried at fair value based on quoted prices in active markets (all Level 1 measurements) and consist primarily of U.S. Treasury Premium Funds valued at and \$2,172,731 and \$1,736,575 at June 30, 2021 and June 30, 2020.

Read to Lead, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

6. Contributions Receivable

Contributions receivable are shown in the accompanying statements of financial position net of discounts to present value. Gross pledges of \$1,618,375 and \$2,096,409 at June 30, 2021 and 2020, with payments due in future years, were discounted to present value using discount rates ranging from 2.98% to 2.25%. Contributions receivable are due as follows at June 30:

	2021	2020
	<u>2021</u>	<u>2020</u>
Less than one year	\$ 990,022	\$ 1,130,177
Two to five years	<u>628,353</u>	<u>966,232</u>
	1,618,375	2,096,409
Discount to present value	<u>(21,696)</u>	<u>(33,428)</u>
	<u><u>\$ 1,596,679</u></u>	<u><u>\$ 2,062,981</u></u>

7. Property and Equipment

Property and equipment consist of the following at June 30:

	2021	2020
	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 3,207	\$ 3,207
Equipment, web design and salesforce	154,071	154,071
Website	48,280	-
Furniture and fixtures	<u>57,511</u>	<u>57,511</u>
	263,069	214,789
Accumulated depreciation and amortization	<u>(164,495)</u>	<u>(155,125)</u>
	<u><u>\$ 98,574</u></u>	<u><u>\$ 59,664</u></u>

There was no fully depreciated assets disposed of and written off during fiscal years 2021 and 2020.

Read to Lead, Inc.

Notes to Financial Statements June 30, 2021 and 2020

8. Paycheck Protection Program (“PPP”) Loan Payable

On April 7, 2020, RTL received loan proceeds in the amount of \$388,098 under the Paycheck Protection Program (the “PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the “Covered Period”). The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries below a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the PPP loan, if any, is payable within two years from the date of the loan. Loan payments of principal and interest are deferred until the amount of loan forgiveness is determined by the United States Small Business Administration (“SBA”). If RTL does not apply for forgiveness, payments begin approximately 24 months after the loan date.

On May 14, 2021, RTL applied for PPP Loan Forgiveness of \$388,098. The application was approved by SBA on June 22, 2021. The amount is included in support and revenue on the 2021 statement of activities.

9. Net Assets With Donor Restrictions

Net assets with donor restrictions for time and purpose at June 30 are as follows:

	2021	2020
Purpose Restricted		
Direct Support to Partners		
New York school districts	\$ 115,421	\$ 184,843
National urban districts	474,713	388,337
Research and assessment	147,534	175,716
Curriculum Development		
Product development	-	307,501
Capacity building	125,000	134,039
	862,668	1,190,436
Time restricted	970,636	1,599,339
	<u>\$ 1,833,304</u>	<u>\$ 2,789,775</u>

Read to Lead, Inc.

Notes to Financial Statements June 30, 2021 and 2020

9. Net Assets With Donor Restrictions (*continued*)

Net assets were released from donor restrictions during the years ended June 30, which satisfied the restricted purposes specified by the donors or the passage of time as follows:

	2021	2020
Purpose Restricted		
Direct Support to Partners		
New York school districts	\$ 414,154	\$ 390,800
National urban districts	427,959	385,675
Research and assessment	242,949	210,119
Curriculum Development		
Product development	367,389	344,000
Capacity building	134,039	190,000
	1,586,490	1,520,594
Time restricted	817,851	184,420
	<u>\$ 2,404,341</u>	<u>\$ 1,705,014</u>

10. Donated Goods and Services

RTL recorded revenues and corresponding expenses or product inventories for donated printing services and donated legal services during fiscal years 2021 and 2020, which are reported in the accompanying financial statements at their estimated fair values.

In addition, a number of members of the Board of Directors have donated significant amounts of their time to RTL's program and supporting services. No amounts have been reported in the accompanying financial statements for these donated services, as they do not meet the criteria for recognition under U.S. GAAP.

11. Employee Benefit Plan

RTL maintains a defined-contribution 403(b) retirement plan (the "Plan") that provides benefits for substantially all of its employees. RTL contributes an amount equal to 3% of each eligible participating employee's compensation to the Plan. If an employee also makes contributions to the Plan, RTL will match the employee's contributions up to an additional 2% of compensation, as defined by the Plan. The maximum employer contribution is 5%. Contributions to the Plan for the years ended June 30, 2021 and 2020 were \$63,285 and \$64,517.

Read to Lead, Inc.

Notes to Financial Statements June 30, 2021 and 2020

12. Commitments

RTL entered into a new lease agreement with a different lessor for its office space in New York, New York. The lease has a lease term of 10 years and commenced in December 2018 ("Lease Commencement Date"). The base rent under the new lease commenced in April 2019 ("Rent Commencement Date"), four months after the Lease Commencement Date.

In August 2018, in conjunction with the execution of the lease agreement, RTL entered into a letter of credit with its new lessor in the amount of \$144,754, for the lease's security deposit. On or after the fourth anniversary of the Rent Commencement Date, RTL shall have the right to reduce the Letter of Credit then on deposit with the new landlord to an amount equal to \$115,803.

Minimum future lease payments under the lease agreements are payable as follows:

2022	\$ 370,321
2022	379,579
2024	397,930
2025	434,762
2026	445,631
Thereafter	<u>1,283,652</u>
	<u>\$3,311,875</u>

After a four-month period of free rent, RTL's monthly cash base rent, under the lease agreement is \$28,951 increasing to \$40,402 per month. Minimum rental commitments do not include utilities or annual operating escalation charges, which are also payable under the office lease. Deferred rent included on the statements of financial position related to the amount of straight-lined rent expensed in advance of rental payments made was \$227,506 and \$190,811 as of June 30, 2021 and June 30, 2020. Rent expense was approximately \$361,000 and \$353,000 for the years ended June 30, 2021 and 2020.

RTL has also entered into various operating lease agreements for its office equipment. The leases expired at various dates during fiscal 2021. The leases are currently on a month-to-month basis. Lease expense under the equipment agreements was \$9,131 and \$7,150 for the years ended June 30, 2021 and 2020.

Read to Lead, Inc.

Notes to Financial Statements June 30, 2021 and 2020

13. Liquidity and Availability of Financial Assets

The following reflects RTL's financial assets as of June 30, reduced by amounts not available for general use within one year, due to contractual or donor-imposed restrictions or internal designations.

	2021	2020
Financial Assets		
Cash and cash equivalents	\$ 853,590	\$ 1,439,598
Restricted and endowment cash	394,754	394,754
Investments	2,172,731	1,736,575
Contributions receivable, net	<u>1,596,679</u>	<u>2,062,981</u>
Total Financial Assets	5,017,754	5,633,908
Less amounts unavailable for general expenditures within one due to:		
Restricted and endowment cash	(394,754)	(394,754)
Restricted by donors	<u>(1,833,304)</u>	<u>(2,789,775)</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 2,789,696</u>	<u>\$ 2,449,379</u>

Liquidity Management

As part of RTL's strategy, management structures its financial assets, consisting of cash and cash equivalents and receivables to be available as its general expenditures and liabilities come due within one year. RTL anticipates approximately \$2,350,000 of additional revenue without donor restrictions to fund its general expenditures and liabilities for fiscal year ending June 30, 2022.

14. Risk and Uncertainties

RTL's operations and financial performance may be affected by the recent coronavirus outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, RTL may experience a disruption in operations as well as decline in revenue and support activities.

* * * * *

Read to Lead, Inc.

Supplementary Information

Years Ended June 30, 2021 and 2020

Read to Lead, Inc.

Schedule of Operating Results Year Ended June 30, 2021

	Total Operating Results (Accrual Basis)	Add Back: Capitalized Product Development And Property and Equipment Costs	Less: Depreciation And Amortization (Non-cash Expense)	Less: Accounting Adjustment to Report Straight-Line Rent (Non-cash Expense)	Less: Accounting Adjustment to Report Donated Services	Total Operating Results (Cash Basis)
SUPPORT AND REVENUE						
Contributions						
Individuals	\$ 409,375	\$ -	\$ -	\$ -	\$ -	\$ 409,375
Foundations and trusts	926,746	-	-	-	-	926,746
Corporations	41,649	-	-	-	-	41,649
Donated goods and services	153,961	-	-	-	(153,961)	-
Other revenue	500	-	-	-	-	500
Interest and dividend return	1,359	-	-	-	-	1,359
Realized and unrealized gain on investments	12,824	-	-	-	-	12,824
Payroll Protection Program loan forgiveness	388,098	-	-	-	-	388,098
Net assets released from restrictions	2,404,341	-	-	-	-	2,404,341
Total Support and Revenue	<u>4,338,853</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(153,961)</u>	<u>4,184,892</u>
EXPENSES						
Salaries and benefits	1,412,515	287,107	-	-	-	1,699,622
Professional fees	683,071	397,550	-	-	-	1,080,621
Donated legal services	124,529	-	-	-	(124,529)	-
Audit	39,240	-	-	-	-	39,240
Occupancy fees	406,949	-	-	(36,695)	-	370,254
Office expenses	10,151	-	-	-	-	10,151
Communications	11,127	-	-	-	-	11,127
Repairs and maintenance	10,981	-	-	-	-	10,981
Depreciation and amortization	9,370	-	(9,370)	-	-	-
Amortization of product development cost	698,848	-	(698,848)	-	-	-
Product supplies	4,774	-	-	-	-	4,774
Travel and conferences	858	-	-	-	-	858
Donated printing services	29,432	-	-	-	(29,432)	-
Recruiting and hiring	4,408	-	-	-	-	4,408
Insurance	21,286	-	-	-	-	21,286
Fees	168,423	6,833	-	-	-	175,256
Software support	84,955	-	-	-	-	84,955
Advertising	85,041	-	-	-	-	85,041
Other	53,352	48,280	-	-	-	101,632
Total Expenses	<u>3,859,310</u>	<u>739,770</u>	<u>(708,218)</u>	<u>(36,695)</u>	<u>(153,961)</u>	<u>3,700,206</u>
Change in Net Assets	479,543	(739,770)	708,218	36,695	-	484,686
Add: Approved use of Board-designated funds for current year operations	81,000	-	-	-	-	81,000
Less: Current year operating surplus board-designated as reserve	(555,000)	-	-	-	-	(555,000)
Net Operating Results	<u>\$ 5,543</u>	<u>\$ (739,770)</u>	<u>\$ 708,218</u>	<u>\$ 36,695</u>	<u>\$ -</u>	<u>\$ 10,686</u>

See independent auditors' report

Read to Lead, Inc.

Schedule of Operating Results Year Ended June 30, 2020

	Total Operating Results (Accrual Basis)	Add Back: Capitalized Product Development And Property and Equipment Costs	Less: Depreciation And Amortization (Non-cash Expense)	Less: Accounting Adjustment to Report Straight-Line Rent (Non-cash Expense)	Less: Accounting Adjustment to Report Donated Services	Total Operating Results (Cash Basis)
SUPPORT AND REVENUE						
Contributions						
Individuals	\$ 767,226	\$ -	\$ -	\$ -	\$ -	\$ 767,226
Foundations and trusts	877,925	-	-	-	-	877,925
Corporations	151,153	-	-	-	-	151,153
Small business administration Economic Injury Disaster						
Loan grant revenue	10,000	-	-	-	-	10,000
Donated goods and services	288,347	-	-	-	(288,347)	-
Other revenue	54,800	-	-	-	-	54,800
Interest and dividends	11,112	-	-	-	-	11,112
Realized and unrealized gain on investments	5,353	-	-	-	-	5,353
Net assets released from restrictions	1,705,014	-	-	-	-	1,705,014
Total Support and Revenue	<u>3,870,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(288,347)</u>	<u>3,582,583</u>
EXPENSES						
Salaries and benefits	1,578,346	272,342	-	-	-	1,850,688
Professional fees	730,082	38,705	-	-	-	768,787
Donated legal services	129,299	-	-	-	(129,299)	-
Audit	34,321	-	-	-	-	34,321
Occupancy fees	399,148	-	-	(45,507)	-	353,641
Office expenses	33,744	-	-	-	-	33,744
Communications	12,210	-	-	-	-	12,210
Repairs and maintenance	9,010	-	-	-	-	9,010
Depreciation and amortization	4,603	-	(4,603)	-	-	-
Amortization of product development cost	613,800	-	(613,800)	-	-	-
Product supplies	7,755	-	-	-	-	7,755
Travel and conferences	96,290	-	-	-	-	96,290
Donated printing services	159,048	-	-	-	(159,048)	-
Recruiting and hiring	8,659	-	-	-	-	8,659
Insurance	18,826	-	-	-	-	18,826
Fees	153,142	10,569	-	-	-	163,711
Software support	32,910	-	-	-	-	32,910
Advertising	62,381	-	-	-	-	62,381
Other	22,935	-	-	-	-	22,935
Total Expenses	<u>4,106,509</u>	<u>321,616</u>	<u>(618,403)</u>	<u>(45,507)</u>	<u>(288,347)</u>	<u>3,475,868</u>
Net Operating Results	<u>\$ (235,579)</u>	<u>\$ (321,616)</u>	<u>\$ 618,403</u>	<u>\$ 45,507</u>	<u>\$ -</u>	<u>\$ 106,715</u>

See independent auditors' report

Read to Lead, Inc.

Notes to Supplementary Information June 30, 2021 and 2020

1. Operating Activities

RTL has elected to present its Operating Activities in the Schedule of Operating Results. Accordingly, expenses affecting operations are segregated from those not affecting operations. RTL monitors and budgets its operational financial performance by not including non-cash expenses, such as depreciation, amortization, straight-line rent and other expenses deemed to be non-repeatable. In addition, operational expenses include costs incurred, but capitalized and included in the statements of financial position.