



Reach Out and Read, Inc.

Financial Statements

June 30, 2016



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Kevin P. Martin & Associates, P.C.

Reach Out and Read, Inc.

Index

June 30, 2016

Independent Auditors' Report

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Financial Statements:

Statements of Financial Position as of June 30, 2016 with Comparative Totals as of June 30, 2015	1
Statements of Activities for the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015	2
Statements of Cash Flows for the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015	3
Statements of Functional Expenses for the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015	4
Notes to Financial Statements	5-16



Independent Auditors' Report

To the Board of Directors of
Reach Out and Read, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Reach Out and Read, Inc. (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2016. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2017, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



March 16, 2017



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors of
Reach Out and Read, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Reach Out and Read, Inc. (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



March 16, 2017

Reach Out and Read, Inc.

Statements of Financial Position

As of June 30, 2016

With Comparative Totals as of June 30, 2015

	2016	2015
Current Assets		
Operating cash	\$ 4,280,299	\$ 3,249,407
Cash reserves, current	647,075	520,974
Total cash and cash equivalents	4,927,374	3,770,381
Accounts receivable, net	40,405	27,804
Grants receivable, net	1,193,603	1,532,482
Prepaid expenses	28,176	25,516
Total current assets	6,189,558	5,356,183
Property and Equipment		
Furniture and fixtures	23,410	31,095
Equipment	21,889	26,640
Leasehold improvements	-	2,639
Subtotal	45,299	60,374
Less: accumulated depreciation	(21,515)	(26,557)
Total property and equipment, net	23,784	33,817
Other Assets		
Cash reserves, long-term	111,477	111,477
Security deposits	6,145	3,098
Total other assets	117,622	114,575
Total Assets	\$ 6,330,964	\$ 5,504,575
Current Liabilities		
Accounts payable	\$ 474,492	\$ 736,746
Accrued expenses	265,377	248,557
Grants payable	90,468	87,246
Deferred revenue	22,941	120,922
Total current liabilities	853,278	1,193,471
Net Assets		
Unrestricted		
Board restricted	980,525	636,000
Undesignated	1,272,038	441,121
Total unrestricted	2,252,563	1,077,121
Temporarily restricted	3,113,646	3,122,506
Permanently restricted	111,477	111,477
Total net assets	5,477,686	4,311,104
Total Liabilities and Net Assets	\$ 6,330,964	\$ 5,504,575

The accompanying notes are an integral part of the financial statements.

Reach Out and Read, Inc.

Statements of Activities

For the Year Ended June 30, 2016

With Comparative Totals for the Year Ended June 30, 2015

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue					
Contributions	\$ 1,106,347	\$ 3,771,256	\$ -	\$ 4,877,603	\$ 5,586,240
Donated goods and services	3,042,563	-	-	3,042,563	5,079,381
Special events	37,105	-	-	37,105	38,804
Government grants	2,516,371	1,500,000	-	4,016,371	1,324,461
Foundation grants	5,959	-	-	5,959	54,041
Other	8,713	-	-	8,713	46,630
Interest	1,014	260	-	1,274	384
Total Support and Revenue	<u>6,718,072</u>	<u>5,271,516</u>	<u>-</u>	<u>11,989,588</u>	<u>12,129,941</u>
Net assets released from restrictions	<u>5,280,376</u>	<u>(5,280,376)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>11,998,448</u>	<u>(8,860)</u>	<u>-</u>	<u>11,989,588</u>	<u>12,129,941</u>
Expenses					
Program	9,241,247	-	-	9,241,247	9,817,449
Management and general	615,666	-	-	615,666	847,596
Fundraising	966,093	-	-	966,093	677,908
Total Expenses	<u>10,823,006</u>	<u>-</u>	<u>-</u>	<u>10,823,006</u>	<u>11,342,953</u>
Change in Net Assets	1,175,442	(8,860)	-	1,166,582	786,988
Net Assets - Beginning of Year	<u>1,077,121</u>	<u>3,122,506</u>	<u>111,477</u>	<u>4,311,104</u>	<u>3,524,116</u>
Net Assets - End of Year	<u>\$ 2,252,563</u>	<u>\$ 3,113,646</u>	<u>\$ 111,477</u>	<u>\$ 5,477,686</u>	<u>\$ 4,311,104</u>

The accompanying notes are an integral part of the financial statements.

Reach Out and Read, Inc.

Statements of Cash Flows

For the Year Ended June 30, 2016
With Comparative Totals for the Year Ended June 30, 2015

Cash Flows from Operating Activities	2016	2015
Change in net assets	\$ 1,166,582	\$ 786,988
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,033	10,755
Decrease (increase) in assets:		
Accounts receivable	(12,601)	(27,804)
Grants receivable	338,879	(620,013)
Prepaid expenses	(2,660)	1,136
Security deposits	(3,047)	30,004
Increase (decrease) in liabilities:		
Grants payable	3,222	(9,241)
Accounts payable	(262,254)	140,556
Accrued expenses	16,820	(13,389)
Deferred revenue	(97,981)	116,029
Net Cash Provided by Operating Activities	1,156,993	415,021
Cash Flows from Investing Activities		
Purchase of property and equipment	-	(32,014)
Net Cash Used in Investing Activities	-	(32,014)
Net Increase in Cash and Cash Equivalents	1,156,993	383,007
Cash and Cash Equivalents - Beginning	3,770,381	3,387,374
Cash and Cash Equivalents - Ending	\$ 4,927,374	\$ 3,770,381
Supplemental Disclosure of Cash Flow Information		
Disposal of fully depreciated fixed assets	\$ 15,075	\$ 268,775

The accompanying notes are an integral part of the financial statements.

Reach Out and Read, Inc.

Statements of Functional Expenses

For the Year Ended June 30, 2016

With Comparative Totals for the Year Ended June 30, 2015

	Total Program	Management and General	Fundraising	2016 Total	2015 Total
Salaries	\$ 1,817,791	268,178	462,548	\$ 2,548,517	\$ 2,274,978
Payroll taxes and benefits	427,757	71,252	136,246	635,255	562,146
Total employee compensation	2,245,548	339,430	598,794	3,183,772	2,837,124
Books	5,445,444	-	146	5,445,590	6,651,910
Conference and travel	127,014	7,665	30,224	164,903	102,117
Consulting	938,241	41,705	206,701	1,186,647	975,426
Depreciation	-	10,033	-	10,033	10,755
Equipment rental and maintenance	24,050	56,132	8,048	88,230	62,878
Literacy materials	108,653	-	-	108,653	52,197
Other expenses	11,391	9,466	29,226	50,083	37,388
Other communications	31,295	13,555	43,658	88,508	64,223
Other occupancy expenses	104	7,538	-	7,642	53,956
Payroll and HR administration	91,546	12,879	24,902	129,327	107,555
Postage and delivery	3,088	1,363	3,763	8,214	11,175
Printing and copying	6,418	544	3,719	10,681	3,243
Professional fees	-	32,971	-	32,971	28,969
Recruitment	1,328	502	982	2,812	10,421
Rent	51,361	56,682	302	108,345	195,007
Research and evaluation	16,380	-	-	16,380	19,185
Staff development/education/training	-	1,006	298	1,304	5,063
Supplies	17,065	11,819	13,420	42,304	46,908
Telephone/internet	21,798	12,376	1,910	36,084	29,123
Training	100,523	-	-	100,523	38,330
Total Functional Expenses	\$ 9,241,247	\$ 615,666	\$ 966,093	\$ 10,823,006	\$ 11,342,953

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

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies followed by Reach Out and Read, Inc. (the Organization) are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of Activities

The Organization was incorporated in the Commonwealth of Massachusetts as a not-for-profit organization under the laws of Massachusetts on July 29, 1999. The Organization's mission is to give young children a foundation for success by incorporating books into pediatric care and encouraging families to read aloud together. Doctors, nurse practitioners and other medical professionals incorporate the Organization's evidence-based model into regular pediatric checkups, by advising parents about the importance of reading aloud and giving developmentally-appropriate books to children. The program begins in infancy and continues through age 5, with a special emphasis on children growing up in low-income communities. Families served by the Organization read together more often, and their children have improved preschool vocabularies and language skills, better prepared to achieve their potential. The Organization's support and revenue are derived principally from contributions, donated goods and services and government grants.

Through public funding, private funding and individual donations, the Organization provides books to approved Organization program sites throughout the country. Approved program sites are medical facilities that have demonstrated the ability to implement the Organization's program and have signed a letter of agreement with the Organization. Funding sources are generated by program sites, regional coalitions and the national center. During the year ended June 30, 2016, approximately 1.2 million books were distributed to approximately 1,850 sites. The goal is to provide sufficient books to all of the approximately 5,000 approved sites in the U.S.

(b) Basis of Presentation

The statement of activities reports all changes in net assets, including changes in unrestricted net assets, from operating activities. Operating revenues consist of those monies received and other contributions attributable to the Organization's ongoing efforts.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(c) Standards of Accounting and Reporting

The Organization's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (unrestricted, temporarily restricted and permanently restricted) and the statement of activities displays the change in each class of net assets. The classes of net assets applicable to the Organization are presented as follows:

Unrestricted - Unrestricted net assets are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations. Unrestricted net assets may be designated for specific purposes by management or the Board of Directors. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Temporarily Restricted - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - Reflects the original amount of gifts and investment earnings required by the donor to be permanently retained. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

(d) Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Organization maintains its cash balances at a financial institution located in Massachusetts. The cash balances are secured by the Federal Deposit Insurance Corporation (FDIC). At times these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. The Organization did not maintain cash balances in excess of FDIC limits in any other financial institution as of June 30, 2016.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition

The Organization earns revenue as follows:

Grants - Grants are recorded as revenue as costs related to the services provided are incurred.

Contributions - Contributions are recorded upon receipt or pledge as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Donated Goods - Donated goods are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated goods to a specific purpose.

Donated Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Company. Volunteers also provided fund-raising and client services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Special Events - Special events revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special events revenue is recognized when earned and is shown net of related direct expenses in the accompanying statement of activities.

Deferred revenue represents program service fee income received prior to year-end. These amounts are deferred and recognized over the periods to which the fees relate.

During the year ended June 30, 2016, the Organization derived approximately 66% of its total revenue from corporations and individual grants and contributions, 33% from governmental agencies and 1% from all other sources. All revenue is recorded at the estimated net realizable amounts.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(f) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2016, management has determined any allowance would be immaterial.

The Organization does not have a policy to accrue interest on receivables. The Organization has no policies requiring collateral or other security to secure the accounts receivable.

(g) Grants Receivable

Conditional grants are not recognized in the financial statements until the conditions are substantially met. Unconditional grants that are expected to be collected within one year are recorded at net realizable value. Unconditional grants that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their 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 contribution revenue. In the absence of donor stipulations to the contrary, grants with payments due in future periods are restricted to use after the due date.

Unconditional grants are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual grants. As of June 30, 2016, management has determined any allowance would be immaterial.

All grants receivable as of June 30, 2016 are expected to be collected in fiscal year 2017. In addition, credit risk with respect to grants receivable is considered low as a significant portion of the grants receivable are from foundations which have been in operation for multiple years and have reported significant assets.

As of June 30, 2016, the Organization's grants receivable consisted of approximately 52% due from corporations and individuals and 48% due from governmental agencies.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(h) Fixed Assets

Fixed assets are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The Organization computes depreciation using the straight-line method over the following estimated lives:

Furniture and fixtures	3-5 years
Equipment	3-5 years
Leasehold improvements	3-5 years

(i) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Organization and promoting special events.

(j) Special Events

The Organization has determined that special events are incidental to its operations and therefore the direct costs of benefit to the donors is reported with fundraising expense and is not included with special events revenue.

(k) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Payroll and associated costs are allocated to functions based upon actual time charges. Occupancy costs are allocated directly to a given function.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(l) Use of Estimates

In preparing the Organization's financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

(m) Income Taxes

The Organization qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally not subject to income tax. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization is not a private foundation under Section 509(a)(1).

(n) Summarized Financial Information for 2015

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the financial statements do not include a full presentation of the statement of functional expenses, as certain prior year summarized comparative information is presented in total but not by functional classification. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(2) Donated Goods and Services

Donated goods and services for the year ended June 30, 2016 were as follows:

Pro-bono outside services:		
Legal service	\$	8,194
Professional services		54,566
Gifts in kind:		
Books and literacy materials		2,976,026
Software		2,931
Rent		846
Total revenue recognized	\$	<u>3,042,563</u>

Donated books from one corporation accounts for 83% of the donated goods and services received during the year ended June 30, 2016.

(3) Operating Lease Commitments

Near the end of the prior year, the Organization moved main office locations within Boston in an effort to reduce costs. This move resulted in a substantial decrease in rental expense going forward as well as the disposal of certain fully depreciated assets.

The Organization occupies multiple office spaces under non-cancelable, operating lease agreements with various expiration dates through fiscal year 2018. The Organization is also liable for certain real estate tax increases and operating cost adjustments under the office lease terms. The minimum annual operating non-cancelable lease commitments on property for the Organization are as follows:

2017	\$ 72,585
2018	69,440

Rent, common area and property tax expense for the year ended June 30, 2016 was \$108,345.

The Organization also leases equipment for use within their office locations with expiration dates through 2018. Future minimum lease payments are as follows:

2017	\$ 10,829
2018	\$ 10,829

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(4) Commitments and Contingencies

(a) *Insperty*

The Organization has a co-employee relationship with Insperty, whereby all employees are compensated by Insperty. The Organization pays Insperty for 100% of gross salaries, as well as 25.35% of gross salaries for taxes, benefits and related fees. As of June 30, 2016, \$229,957 is owed to Insperty and is included in accrued expenses on the accompanying statement of financial position.

The total salaries, fringe benefits and administrative service fees paid under this agreement was approximately \$3,313,099 for the year ended June 30, 2016.

(b) *Governmental Agencies*

The Organization receives a portion of its funding from governmental agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed, if any, and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

The Organization's operations are concentrated in the educational field. As such, the Organization operates in a heavily regulated environment. The operations of the Organization are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies.

Such administrative directives, rules and regulations are subject to change by an act of Congress, act of the state and local legislature or an administrative change mandated by a governmental agency. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Additionally, contractual funding may decrease or be withdrawn with little notice.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(5) Restricted Net Assets

(a) Board Restricted Net Assets

The Board of Directors has designated \$980,525 of accumulated earnings to be used for future budgeted program activities.

(b) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2016, temporarily restricted net assets are restricted for programmatic purposes.

(c) Permanently Restricted Net Assets

Permanently restricted net assets represent donations with stipulations that they be invested to provide a permanent source of income to defray programmatic costs in accordance with the Organization's endowment spending policy. The permanently restricted donations are being held in money market accounts in order to preserve their fair value. These amounts have been classified as long-term cash reserves on the statement of financial position. Consistent with donor restrictions unrealized gains and losses on these investments follow the treatment of investment income. Accordingly, unrealized gains and losses are reported in the statement of activities as increases or decreases in temporarily restricted net assets. Any excess unrealized losses over corpus are classified as decreases in unrestricted net assets. No excess losses over corpus have occurred as of June 30, 2016.

As of June 30, 2016, permanently restricted net assets totaled \$111,477. Interest of \$260 was earned and released on these permanent restricted net assets during the year ended June 30, 2016.

(6) Related Party Transactions

The Organization maintains a written conflict of interest policy under which all Directors, Officers, employees and significant consultants provide specific notice to the Organization. The information requested is specific by class of individual and is requested prior to the engagement in any transaction with the Organization. Management is not aware of any transaction occurring with any identified class during the tax year without prior full disclosure of the relationship in accordance with this policy. All compensation rates are approved by independent board members and/or determined by the same policy and processes used to determine rates of compensation for all other employees and/or vendors. All identified transactions received heightened Board of Directors scrutiny in accordance with this policy.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(6) Related Party Transactions - continued

The following transactions were processed in accordance with the Organization's conflict of interest policy:

- a Board member holds a significant position with a major vendor that provides the Organization both donated and purchased books for distribution in their programs, and;
- a Board member holds a significant position with a customer that receives donated books from the Organization.

(7) Endowment

The Organization accepts endowment gifts under the stipulation that the funds are invested in perpetuity. Unless otherwise restricted by the donor, the investment income is to be used in accordance with the Organization's endowment spending policy. The goals of the endowment fund are to provide unrestricted support for the Organization. The Organization's Board of Directors oversees the establishment and revision of goals, spending plans and asset allocations for endowments.

The Organization's endowment consists of \$111,477 established for donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) *Uniform Prudent Management of Institutional Funds Act*

The Organization's management and investment of donor-restricted endowment funds are subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline to states to use enacting legislation. UPMIFA was adopted by the Commonwealth of Massachusetts effective June 30, 2009. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending.

The Board of Directors has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Further, per the interpretation, the UPMIFA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(7) Endowment - continued

(b) Appropriation of Endowment Assets for Expenditure

The Organization considers the following factors in making a determination to appropriate endowment funds for expenditure:

- (1) The purposes of the Organization and the donor-restricted endowment fund
- (2) General economic conditions
- (3) The possible effect of inflation and deflation
- (4) The expected total return from income and the appreciation of investments
- (5) Other resources of the Organization

(c) Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that invest in a thoughtful and prudent manner to preserve and/or enhance the Organization's ability to help provide for the future benefit of the Organization's programs. The oversight of the endowment funds is the responsibility of the Board of Directors. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve the endowment funds' principal, considering inflation and to regulate the long term ability and short term needs to distribute income.

(d) Strategies Employed for Achieving Investment Objectives

To satisfy its objectives, the Organization relies on a return strategy in which investment returns are achieved through current yield (interest and dividends).

(e) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies may result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no such deficiencies as of June 30, 2016.

(f) Composition and Reconciliation of Endowment Funds

The endowment fund is solely comprised of donor-restricted contributions including in permanently restricted net assets on the statement of activities. There are no board-designated endowment funds.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2016

(8) Subsequent Events

The Organization has performed an evaluation of subsequent events through March 16, 2017, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2016, other than those disclosed below, that required recognition or disclosure in these financial statements.

In December 2016, the Commonwealth of Massachusetts terminated its contract for services with the Organization for the period from July 1, 2016 to June 30, 2017. The termination was the result of budgetary cost reductions initiated across the state, of which the Organization was a small component. The contract provided revenue of \$1 million over the term of the period. Management of the Organization has undertaken cost saving measures to mitigate this loss and management of the Organization does not expect it to have any material adverse effect on the Organization. These financial statements have not been adjusted as a result of this subsequent event.