

REACH OUT AND READ, INC.

Financial Statements

June 30, 2013

(With Comparative Totals for 2012)



SANDBERG & CREEDEN, P.C.

Certified Public Accountants

331 Page Street

Stoughton, MA 02072

REACH OUT AND READ, INC.

FINANCIAL STATEMENTS
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

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

Independent Auditor's Report

Report on Financial Statements

We have audited the accompanying financial statements of Reach Out and Read, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

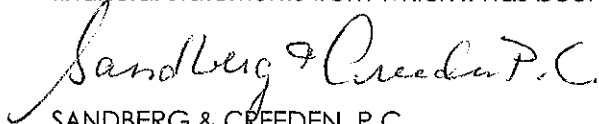
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reach Out and Read as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2014, on our consideration of Reach Out and Read, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Reach Out and Read, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Reach Out and Read, Inc.'s 2012 financial statements, and our report dated September 28, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended Year June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.



SANDBERG & CREEDEN, P.C.
Certified Public Accountants

Stoughton, Massachusetts
February 13, 2014



REACH OUT AND READ, INC.

STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2013
 (WITH COMPARATIVE TOTALS FOR 2012)

	<u>ASSETS</u>	
	<u>2013</u>	<u>2012</u>
<u>Current Assets</u>		
Operating cash	\$ 2,871,695	\$ 2,723,074
Operating cash reserves	837,868	837,323
Accounts receivable	5,477	
Pledges receivable	1,108,638	313,963
Inventory		7,018
Security deposit	33,102	33,102
Prepaid expenses	<u>32,872</u>	<u>37,511</u>
Total current assets	4,889,652	3,951,991
<u>Property and Equipment</u>		
Furniture and fixtures	38,363	33,562
Equipment	202,809	199,427
Leasehold improvements	<u>60,647</u>	<u>59,328</u>
Subtotal	301,819	292,317
Less: accumulated depreciation	<u>281,891</u>	<u>269,820</u>
Total property and equipment	<u>19,928</u>	<u>22,497</u>
<u>Total Assets</u>	<u>\$ 4,909,580</u>	<u>\$ 3,974,488</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Grants payable	\$ 52,894	\$ 39,098
Accounts payable	1,513,064	619,636
Accrued expenses	357,855	743,930
Service fee advances		<u>26,955</u>
Total current liabilities	<u>1,923,813</u>	<u>1,429,619</u>
<u>Net Assets</u>		
Unrestricted net assets		
Board restricted	543,000	
Undesignated	<u>340,390</u>	<u>938,526</u>
Total unrestricted net assets	883,390	938,526
Temporarily restricted	1,990,900	1,494,866
Permanently restricted	<u>111,477</u>	<u>111,477</u>
Total net assets	<u>2,985,767</u>	<u>2,544,869</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 4,909,580</u>	<u>\$ 3,974,488</u>

See accompanying notes. See Independent Auditors' Report.





REACH OUT AND READ, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)**

	2013			2012	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
<u>Support and Revenue</u>					
Support					
Contributions	\$ 1,273,312	\$ 4,282,530	\$	\$ 5,555,842	\$ 3,644,614
Donated goods and services	5,894,486			5,894,486	9,130,839
Special events	128,021	40,774		168,795	121,079
Net assets released from restrictions	3,827,964	(3,827,964)			
Revenue					
Government grants	1,162,168			1,162,168	2,685,447
Foundation grants					537,558
Other income	46,488	541		47,029	72,429
Interest	544	153		697	919
<u>Total Support and Revenue</u>	12,332,983	496,034		12,829,017	16,192,885
<u>Operating Expenses</u>					
Program	10,616,374			10,616,374	14,912,717
Management and general	907,645			907,645	994,807
Fundraising	864,100			864,100	960,121
<u>Total Expenses</u>	12,388,119			12,388,119	16,867,645
<u>Change in Net Assets</u>	(55,136)	496,034		440,898	(674,760)
<u>Net Assets - Beginning of Year</u>	938,526	1,494,866	111,477	2,544,869	3,219,629
<u>Net Assets - End of Year</u>	\$ 883,390	\$ 1,990,900	\$ 111,477	\$ 2,985,767	\$ 2,544,869

See accompanying notes. See Independent Auditors' Report.



REACH OUT AND READ, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013			2012	
	Total Program	Management and General	Fundraising	Total	Total
Salaries	\$ 1,737,507	\$ 396,725	\$ 516,920	\$ 2,651,152	\$ 2,719,600
Payroll taxes and benefits	346,641	80,799	100,422	527,862	547,500
Subtotal	<u>2,084,148</u>	<u>477,524</u>	<u>617,342</u>	<u>3,179,014</u>	<u>3,267,100</u>
Books	7,448,252		1,208	7,449,460	11,603,295
Coalitions	3,950			3,950	57,849
Conference and travel	77,040	2,670	21,408	101,118	121,227
Consulting	633,924	219,265	91,347	944,536	923,929
Depreciation		12,071		12,071	18,685
Equipment rental and maintenance	10,617	42,972	1,440	55,029	73,244
Literacy materials	34,006			34,006	42,753
Other expenses	13,627	8,715	47,581	69,923	51,394
Other communications	48,732	936	32,687	82,355	131,623
Other occupancy expenses	9,791	15,083	2,150	27,024	32,700
Payroll and HR administration	64,733	12,316	19,136	96,185	80,951
Postage and delivery	7,659	2,685	3,274	13,618	18,080
Printing and copying	5,539	482	6,007	12,028	3,900
Professional fees		37,267		37,267	61,740
Recruitment	815	2,598	272	3,685	14,849
Rent	116,963	57,340	18,982	193,285	221,325
Research and evaluation					14,479
Staff development/education/training	125	79	300	504	8,449
Supplies	12,819	3,649	273	16,741	16,770
Telephone/internet	17,574	11,993	693	30,260	26,094
Training	26,060			26,060	77,209
Total	<u>\$ 10,616,374</u>	<u>\$ 907,645</u>	<u>\$ 864,100</u>	<u>\$ 12,388,119</u>	<u>\$ 16,867,645</u>

See accompanying notes and the Independent Auditors' Report.

REACH OUT AND READ, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	<u>2013</u>	<u>2012</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$ 440,898	\$ (674,760)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,071	18,685
(Increase) Decrease in:		
Accounts receivable	(5,477)	14,574
Pledges receivable	(794,675)	455,057
Inventory	7,018	2,357
Prepaid expenses	4,639	1,560
Increase (Decrease) in:		
Grants payable	13,796	(59,762)
Accounts payable	893,428	484,258
Accrued expenses	(386,075)	257,326
Service fee advances	(26,955)	(537,558)
	<u>158,668</u>	<u>(38,263)</u>
<u>Cash Flows from Investing Activities</u>		
Purchases of equipment	(9,502)	(23,139)
Security deposit		<u>(1,718)</u>
	<u>(9,502)</u>	<u>(24,857)</u>
<u>Cash Flows from Financing Activities</u>	<u>0</u>	<u>0</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	149,166	(63,120)
<u>Cash and Cash Equivalents - Beginning of Year</u>	<u>3,560,397</u>	<u>3,623,517</u>
Operating cash	\$ 2,723,074	\$ 2,786,857
Operating cash reserves	<u>837,323</u>	<u>836,660</u>
	<u>\$ 3,560,397</u>	<u>\$ 3,623,517</u>
<u>Cash and Cash Equivalents - End of Year</u>	<u>\$ 3,709,563</u>	<u>\$ 3,560,397</u>
Operating cash	\$ 2,871,695	\$ 2,723,074
Operating cash reserves	<u>837,868</u>	<u>837,323</u>
	<u>\$ 3,709,563</u>	<u>\$ 3,560,397</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 0</u>	<u>\$ 0</u>
Write off fully depreciated fixed assets	<u>\$ 0</u>	<u>\$ 8,977</u>

See accompanying notes. See Independent Auditors' Report.



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Note 1. Organization

Reach Out and Read, Inc. (the "Organization"), was incorporated in the Commonwealth of Massachusetts as a not-for-profit organization under the laws of Massachusetts on July 29, 1999. Reach Out and Read, Inc.'s mission is to prepare America's youngest children to succeed in school by partnering with doctors to prescribe books and encourage families to read together. Doctors, nurse practitioners, and other medical professionals incorporate Reach Out and Read'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 at the 6-month checkup and continues through age 5, with a special emphasis on children growing up in low-income communities. Families served by Reach Out and Read read together more often, and their children enter kindergarten with larger vocabularies and stronger language skills, better prepared to achieve their potential. The Organization support and revenue are derived principally from contributions, donated goods and services and governmental grants.

Through public funding, private funding, and individual donations, Reach Out and Read provides books to approved Reach Out and Read program sites throughout the country. Approved program sites are medical facilities that have demonstrated the ability to implement the Reach Out and Read program and have signed a letter of agreement with Reach Out and Read, Inc. Funding sources are generated by program sites, regional coalitions, and the national center. In Fy13, approximately 1.5 million books were distributed to approximately 2,000 sites during the fiscal year. The goal is to provide sufficient books to all of the approximately 5,000 approved sites in the U. S.

Note 2. Summary of Significant Accounting Policies

The financial statements include all of the accounts of Organization and 6 Coalitions that the Organization acts as a fiscal sponsor for. All intercompany accounts and transactions have been eliminated in combination.

a. Standards of Accounting and Reporting

The Organization follows the standards of accounting and financial reporting as described in the American Institute of Certified Public Accountants' Audit and Accounting Guide for "Not-for-Profit Organizations".



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

b. Financial Statement Presentation

The Organization presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 (formerly Statement of Financial Accounting Standards No. 117, Financial Statements for Not-for-Profit Organizations). Accordingly, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset categories follows:

Unrestricted - Net assets that are not subject to donor-imposed or time related restrictions. Pledges, unless otherwise restricted by the donor, are classified as unrestricted revenue in the year in which the pledge is made. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted - Net assets subject to donor-imposed restrictions that must be maintained permanently by the Organization.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, Reach Out and Read, Inc., considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

d. Promises To Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

e. Fixed Assets

These assets are recorded at cost, when purchased or if donated, at their estimated fair market value at date of donation. All acquisitions of property, equipment, and software in excess of \$1,500, and all expenditures for repairs and betterments that materially prolong the useful lives of assets are capitalized.



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

- f. Service Fee Advances
Service fee advances represents revenue collected but not earned as of June 30, 2013. This is primarily composed of revenue for future work in three states in advance of our next fiscal year. Payments for services were paid in advance as a convenience by the funding source and were recognized in FY 2013 when the services were provided and expenses were incurred.
- g. Restricted and Unrestricted Revenue
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.
- h. Donated Goods and Services
Donated goods and services are reflected as contributions at their estimated fair market value at date of receipt if an objective basis exists for recording and assigning value of such donations.

Donated services are recognized as contributions if the service (a) creates or enhances nonfinancial assets or (b) requires specialized skills, are performed by people with those skills, and would otherwise be purchased by Reach Out and Read. The Organization received the following in kind goods and professional services:

	<u>2013</u>	<u>2012</u>
Books and Literacy Materials	\$ 5,719,086	\$ 8,866,173
Professional fees and travel	126,227	192,478
Conference, office, and storage space	33,199	18,727
Supplies, software, and equipment	<u>15,974</u>	<u>53,461</u>
Total	<u>\$ 5,894,486</u>	<u>\$ 9,130,839</u>

Other volunteer efforts, not meeting the definition above and therefore not reflected in the accompanying financial statements include: 1) community based advisory board services; 2) fundraising and public awareness efforts; 3) reading to children in the waiting rooms at approved medical sites; and most importantly; 4) medical providers implementing the program during the medical visit.



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

- i. Contracts
Financial awards from federal and state governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.
- j. Depreciation
Provisions for depreciation are made in the accounts using the straight-line method over the estimated useful life of the asset. The estimated useful lives of the assets are as follows:
- | | |
|-------------------------|-----------|
| Leasehold Improvements | 3-5 years |
| Equipment and Furniture | 3-7 years |
- k. Allocation of Expenses
Expenses are allocated among program and supporting services directly or on the basis of time records and utilization estimates made by the Organization's management. General and administrative 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.
- l. Use of Estimates
The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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. Summarized Comparative Financial Statements
The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2012, from which the summarized information was derived.



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(Continued)

Note 3. Tax Status

The Organization is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the financial statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an Organization that is not a private foundation under Section 509(a)(1).

Unrelated business income, of which the Organization had none for the year ending June 30, 2013, would be subject to Federal and State taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

Note 4. Concentration of Credit Risk

The Organization has cash on deposit at a local financial institution. The bank is insured by the Federal Deposit Insurance Corporation for cash balances up to \$250,000. During the year, the cash balances exceeded the insured amount. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk for cash and cash equivalents. The Organization's uninsured cash balance at June 30, 2013 was \$2,659,787.

Note 5. Pledges Receivable

Pledges receivable consist of contributions pledged through fiscal year 2013 and are expected to be collected as follows:

Due FY2014 \$ 1,108,638

In addition, credit risk with respect to pledges receivable is considered low as a significant portion are from foundations which have been in operation for years and have reported significant assets.

Note 6. Inventory

The Organization carried inventory items consisting of books, merchandise, and printed materials. The balance as of June 30, 2013 and 2012 was \$0 and \$7,018, respectively.

Note 7. Prepaid Expenses

Prepaid expenses as of June 30, consists of the following:

	<u>2013</u>	<u>2012</u>
Deposits	\$ 3,761	\$ 3,000
Maintenance contracts	5,282	7,245
Consultants	12,100	10,532
Insurance	2,056	1,743
Other	5,181	1,586
Rent	<u>4,492</u>	<u>13,405</u>
	<u>\$ 32,872</u>	<u>\$ 37,511</u>



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(Continued)

Note 8. Accounts Payable

Accounts Payable at June 30, 2013 totaling \$1,513,064 consists of consultants, books, and other vendor payables to be liquidated in FY 2014.

Note 9. Revolving Line of Credit

The Organization has a \$500,000 revolving line of credit dated January 23, 2004 which was unused at June 30, 2013. Advances on the credit line are payable on demand and carry an interest rate of .75% above the Broker Call rate as quoted in The Wall Street Journal. The credit line is secured by cash held in a business money market account at the financial institution classified as "unrestricted funds". Additional deposit conditions apply.

Note 10. Board Designated Net Assets

The Board has designated \$543,000 of accumulated earnings for future budgeted program activities in FY 2014.

Note 11. Temporarily Restricted Net Assets

At June 30, 2013 temporarily restricted net assets consist of the following:

Program use	\$ 139,826
Time restricted	<u>1,851,074</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,990,900</u>

Note 12. Permanently Restricted Net Assets

At June 30, 2013, permanently restricted net assets of \$111,477 consist of endowment funds that permanently restrict the principal. Interest from these endowments is temporarily restricted and released for satisfaction of program expenses. Interest of \$153 and \$354 was earned and released in fiscal 2013 and 2012, respectively.

Note 13. Significant Expenditures

Reach Out and Read, Inc. awarded assistance to organizations and other groups in the form of books, literacy materials, training and coalition support as follows:

Total awarded assistance	<u>2013</u> <u>\$ 7,513,477</u>	<u>2012</u> <u>\$11,796,130</u>
Percent of total expenses	<u>61%</u>	<u>70%</u>



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(Continued)

Note 14. Lease Commitments

The Organization entered into an office space lease in Boston, Massachusetts expiring June 30, 2015. Base annual rent under the lease is fixed per year and graduates annually. In addition, the Organization is responsible for their pro rata share with an escalation factor over a base year for utilities, real estate taxes, and basic operating expenses. A security deposit of \$30,004 is held by the landlord. The Organization entered into an office space lease in Seattle, Washington expiring July 31, 2016. A security deposit of \$3,098 is held by the landlord. Rent, common area, and property tax expense was \$178,721 and \$198,925 for the fiscal years ended 2013 and 2012, respectively. Future minimum rental payments are as follows:

<u>Fiscal Year</u>	<u>Total</u>
2014	\$ 180,671
2015	186,256
2016	3,098

The Organization also rented and had donated storage space totaling \$14,564 and \$22,400 for the fiscal years ended 2013 and 2012, respectively.

The Organization also entered into a 60 month operating lease for a copier on May 24, 2011 for \$654 per month. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Total</u>
2014	\$ 7,848
2015	7,848
2016	7,179

Note 15. Fundraising Expenses

The Organization raises both public and private dollars. Expenses within the Organization at June 30, 2013 and 2012, respectively, can be further allocated based on activities relating to the following:

	<u>2013</u>	<u>2012</u>
Development	\$ 553,646	\$ 593,425
Government Relations	110,643	212,434
Regional Coalitions	199,811	188,948
Total	<u>\$ 864,100</u>	<u>\$ 994,807</u>



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

(Continued)

Note 16. Service Marks

The Organization has service marks registered with the U.S. patent and Trademark Office and the European Community Service Mark for REACH OUT AND READ. Those service marks are due for renewal in June 2021 and June 2020, respectively. The Organization also has a service mark for REACH OUT AND READ (& Design) which is registered with the U. S. patent and Trademark Office. This mark is due for renewal in December 2015.

In March 2009, the Organization also had a service mark registered with the U.S. Patent and Trademark office for "ROR". This service mark is due for renewal in March 2019.

In April 2012, the Organization applied and has been allowed to use a service mark with the U.S. Patent and Trademark office for "Where Great Stories Begin".

Note 17. Other Commitments

The Organization is party to an administrative services agreement with Boston Medical Center Corporation ("BMC") whereby a number of the employees in Massachusetts of Reach Out and Read, Inc. are compensated by BMC. The Organization reimburses BMC for one hundred percent of gross salaries and a standard 20% fringe benefits rate. The Organization also pays an administrative fee of 2.5% of gross salaries paid by BMC. Included in accounts payable are amounts owed to BMC of \$755,213 and \$463,743 at June 30, 2013 and 2012, respectively. Included in accrued expenses are amounts owed to BMC of \$201,669 and \$265,279 at June 30, 2013 and 2012, respectively.

On October 1, 2010, the Organization began a co-employee relationship with Insperity, whereby a number of employees in Massachusetts and all employees outside of Massachusetts are compensated by Insperity. The Organization paid Insperity for one hundred percent of gross salaries, taxes, benefits and related fees of 25.35%. Included in accrued expenses are amounts owed to Insperity of \$122,199 and \$67,630, at June 30, 2013 and 2012, respectively.

The total salaries, fringe benefits and administrative service fees paid under these two agreements were approximately \$3,275,703 and \$3,348,051 for 2013 and 2012, respectively.

As of August 15, 2012, the Organization entered into a thirteen-month employment agreement with its Executive Director, of the Georgia area which provided a specific term, salary and fringe benefits. The term of the contract is August 15, 2012 to September 30, 2013.

Note 18. Related Party Disclosure

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 agency. 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, 2013

(Continued)

Note 18. Related Party Disclosure (Continued)

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

- One member of the Board of Directors is compensated as an independent contractor;
- One board member holds a significant position with a major vendor that provides Reach Out and Read, Inc. both donated and purchased books for distribution in their programs, and;
- One member of the Board of Directors holds a significant position with a customer that receives donated books from Reach Out and Read.
- One Board member works for a vendor who evaluates one of Reach Out and Read's programs.

Note 19. Subsequent Events

The Organization has evaluated events through March 4, 2014 the date the financial statements were available to be issued.

The Organization is the defendant in a litigation brought against it by a former employee. While the final outcome cannot be determined at this time, the Organization believes that any liability that may occur would not have a material adverse effect on the financial conditions. As of March 4, 2014 the matter is still pending.

The Board of Directors of the Organization is evaluating a variety of options intended to provide greater financial stability to the Organization in the future. Included in these options is a possible merger or partnership with other 501(c)(3) nonprofits whose core missions are complementary to those of Reach Out and Reach and where a combination of efforts will be incrementally beneficial to both organizations. No decision has been approved by the Board as of March 4, 2014.



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

Independent Auditor's 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

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), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Reach Out and Read, Inc.'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 Reach Out and Read, Inc.'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.

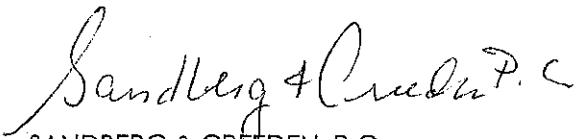
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Reach Out and Read, Inc.'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.



SANDBERG & CREEDEN, P.C.
Certified Public Accountants

Stoughton, Massachusetts
February 13, 2014

