

REACH OUT AND READ, INC.

Financial Statements
June 30, 2014
(With Comparative Totals for 2013)



SANDBERG & CREEDEN, P.C.

Certified Public Accountants

331 Page Street

Stoughton, MA 02072

REACH OUT AND READ, INC.

FINANCIAL STATEMENTS
JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

Table of Contents

	<u>PAGE</u>
<u>Financial Statements</u>	
Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-15
<u>Additional Information</u>	
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 <i>Government Auditing Standards</i>	16-17



331 Page Street • Stoughton, MA 02072

Telephone: (781) 344-0850

Fax: (781) 344-6960

www.sandbergandcreeden.com

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, 2014, 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

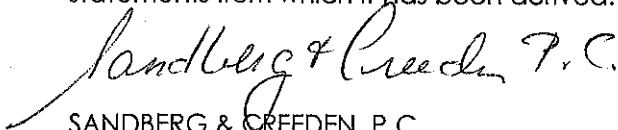
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reach Out and Read as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted 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 December 5, 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 2013 financial statements, and our report dated February 13, 2014, 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 June 30, 2013, 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
December 5, 2014



REACH OUT AND READ, INC.

STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2014
 (WITH COMPARATIVE TOTALS FOR 2013)

<u>ASSETS</u>		
	<u>2014</u>	<u>2013.</u>
<u>Current Assets</u>		
Operating cash	\$ 2,796,658	\$ 2,871,695
Operating cash reserves	702,193	837,868
Accounts receivable		5,477
Pledges receivable	912,469	1,108,638
Security deposit	33,102	33,102
Prepaid expenses	<u>26,652</u>	<u>32,872</u>
Total current assets	4,471,074	4,889,652
<u>Property and Equipment</u>		
Furniture and fixtures	38,363	38,363
Equipment	191,105	202,809
Leasehold improvements	<u>67,667</u>	<u>60,647</u>
Subtotal	297,135	301,819
Less: accumulated depreciation	<u>284,577</u>	<u>281,891</u>
Total property and equipment	<u>12,558</u>	<u>19,928</u>
<u>Total Assets</u>	<u>\$ 4,483,632</u>	<u>\$ 4,909,580</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Grants payable	\$ 96,487	\$ 52,894
Accounts payable	596,190	1,513,064
Accrued expenses	261,946	357,855
Service fee advances	<u>4,893</u>	<u> </u>
Total current liabilities	959,516	1,923,813
<u>Net Assets</u>		
Unrestricted net assets		
Board restricted	696,000	543,000
Undesignated	<u>651,941</u>	<u>340,390</u>
Total unrestricted net assets	1,347,941	883,390
Temporarily restricted	2,064,698	1,990,900
Permanently restricted	<u>111,477</u>	<u>111,477</u>
Total net assets	<u>3,524,116</u>	<u>2,985,767</u>
<u>Total Liabilities and Net Assets</u>	<u>\$ 4,483,632</u>	<u>\$ 4,909,580</u>

See accompanying notes. See Independent Auditors' Report.





REACH OUT AND READ, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	2014			2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue					
Support					
Contributions	\$ 1,447,391	\$ 3,506,726	\$	\$ 4,954,117	\$ 5,555,842
Donated goods and services	5,029,792			5,029,792	5,894,486
Special events	72,541	3,180		75,721	168,795
Net assets released from restrictions	3,436,820	(3,436,820)			
Revenue					
Government grants	1,202,673			1,202,673	1,162,168
Foundation grants	48,422			48,422	
Other income	87,529	529		88,058	47,029
Interest	301	183		484	697
Total Support and Revenue	11,325,469	73,798		11,399,267	12,829,017
Operating Expenses					
Program	9,084,429			9,084,429	10,616,374
Management and general	1,049,735			1,049,735	907,645
Fundraising	726,754			726,754	864,100
Total Expenses	10,860,918			10,860,918	12,388,119
Change in Net Assets	464,551	73,798		538,349	440,898
Net Assets - Beginning of Year	883,390	1,990,900	111,477	2,985,767	2,544,869
Net Assets - End of Year	\$ 1,347,941	\$ 2,064,698	\$ 111,477	\$ 3,524,116	\$ 2,985,767

See accompanying notes. See Independent Auditors' Report.



REACH OUT AND READ, INC.
 STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2014
 (WITH COMPARATIVE TOTALS FOR 2013)

	2014			2013	
	Total Program	Management and General	Fundraising	Total	Total
Salaries	\$ 1,677,471	\$ 308,276	\$ 381,064	\$ 2,366,811	\$ 2,651,152
Payroll taxes and benefits	378,713	70,927	83,224	532,864	527,862
Subtotal	2,056,184	379,203	464,288	2,899,675	3,179,014
Books	6,167,007			6,167,007	7,449,460
Coalitions					3,950
Conference and travel	65,114	3,019	11,909	80,042	101,118
Consulting	398,350	119,453	105,537	623,340	944,536
Depreciation		14,390		14,390	12,071
Equipment rental and maintenance	8,954	49,347	1,440	59,741	55,029
Literacy materials	54,391			54,391	34,006
Other expenses	71,654	8,206	22,636	102,496	69,923
Other communications	9,559	1,580	74,547	85,686	82,355
Other occupancy expenses	10,391	16,905	2,490	29,786	27,024
Payroll and HR administration	62,827	10,751	16,563	90,141	96,185
Postage and delivery	5,473	3,124	4,727	13,324	13,618
Printing and copying	3,007	367	2,215	5,589	12,028
Professional fees		380,849		380,849	37,267
Recruitment	517	827		1,344	3,685
Rent	128,789	42,593	18,874	190,256	193,285
Research and evaluation	390			390	
Staff development/education/training	1,500	638	238	2,376	504
Supplies	10,999	6,399	497	17,895	16,741
Telephone/internet	16,802	12,084	793	29,679	30,260
Training	12,521			12,521	26,060
Total	<u>\$ 9,084,429</u>	<u>\$ 1,049,735</u>	<u>\$ 726,754</u>	<u>\$ 10,860,918</u>	<u>\$ 12,388,119</u>

See accompanying notes and the Independent Auditors' Report.

REACH OUT AND READ, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	<u>2014</u>	<u>2013</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$ 538,349	\$ 440,898
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,390	12,071
(Increase) Decrease in:		
Accounts receivable	5,477	(5,477)
Pledges receivable	196,169	(794,675)
Inventory		7,018
Prepaid expenses	6,220	4,639
Increase (Decrease) in:		
Grants payable	43,593	13,796
Accounts payable	(916,874)	893,428
Accrued expenses	(95,909)	(386,075)
Service fee advances	4,893	(26,955)
	<u>(203,692)</u>	<u>158,668</u>
<u>Cash Flows from Investing Activities</u>		
Purchases of equipment	<u>(7,020)</u>	<u>(9,502)</u>
<u>Net Cash (Used in) Investing Activities</u>	<u>(7,020)</u>	<u>(9,502)</u>
<u>Cash Flows from Financing Activities</u>	<u>0</u>	<u>0</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	(210,712)	149,166
<u>Cash and Cash Equivalents - Beginning 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>
<u>Cash and Cash Equivalents - End of Year</u>	<u>\$ 3,498,851</u>	<u>\$ 3,709,563</u>
Operating cash	\$ 2,796,658	\$ 2,871,695
Operating cash reserves	<u>702,193</u>	<u>837,868</u>
	<u>\$ 3,498,851</u>	<u>\$ 3,709,563</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 0</u>	<u>\$ 0</u>
Write off fully depreciated fixed assets	<u>\$ 11,704</u>	<u>\$ 0</u>

See accompanying notes. See Independent Auditors' Report.



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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's support and revenue are derived principally from contributions, donated goods and services, and government 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 FY14, approximately 1.3 million books were distributed to approximately 1,700 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 the Organization and five 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, 2014

(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. 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 \$3,000, 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, 2014

(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, 2014. This is primarily composed of revenue for future work in two 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 2015 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>2014</u>	<u>2013</u>
Books and Literacy Materials	\$ 4,598,914	\$ 5,719,086
Professional fees and travel	421,475	126,227
Conference, office, and storage space	5,313	33,199
Supplies, software, and equipment	4,090	15,974
Total	<u>\$ 5,029,792</u>	<u>\$ 5,894,486</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, 2014

(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, 2013, from which the summarized information was derived.



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(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, 2014, would be subject to Federal and State taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

Accounting principles generally accepted in the United States of America require the Organization management to evaluate tax positions taken by the Organization and recognize a tax liability (or assets) if it has taken an uncertain position that more likely would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken and has concluded that as of June 30, 2014, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The tax returns are subject to routine audits by taxing jurisdictions, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for the years prior to 2011.

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, 2014 was \$2,549,667.

Note 5. Pledges Receivable

Pledges receivable consist of contributions pledged through fiscal year 2014 and are expected to be collected as follows:

Due FY2015	<u>\$ 912,469</u>
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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.



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(Continued)

Note 6. Prepaid Expenses

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

	<u>2014</u>	<u>2013</u>
Deposits	\$ 500	\$ 3,761
Maintenance contracts	4,908	5,282
Consultants		12,100
Insurance	3,379	2,056
Other	1,975	5,181
Rent	15,890	4,492
	<u>\$ 26,652</u>	<u>\$ 32,872</u>

Note 7. Accounts Payable

Accounts Payable at June 30, 2014 totaling \$596,190 consists of consultants, books, and other vendor payables to be liquidated in FY 2015.

Note 8. Revolving Line of Credit

The Organization has a \$500,000 revolving line of credit dated January 23, 2004 which was unused at June 30, 2014. 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 9. Board Designated Net Assets

The Board has designated \$696,000 of accumulated earnings for future budgeted program activities in FY 2015.

Note 10. Temporarily Restricted Net Assets

At June 30, 2014 temporarily restricted net assets consist of the following:

Program use	\$ 338,876
Time restricted	<u>1,725,822</u>
Total Temporarily Restricted Net Assets	<u>\$ 2,064,698</u>

Note 11. Permanently Restricted Net Assets

At June 30, 2014, 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 \$183 and \$153 was earned and released in fiscal 2014 and 2013, respectively.



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(Continued)

Note 12. 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:

	2014	2013
Total awarded assistance	<u>\$ 6,234,309</u>	<u>\$ 7,513,477</u>
Percent of total expenses	<u>57%</u>	<u>61%</u>

Note 13. 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, 2015. A security deposit of \$3,098 is held by the landlord. Rent, common area, and property tax expense was \$182,869 and \$178,721 for the fiscal years ended 2014 and 2013, respectively. Future minimum rental payments are as follows:

Fiscal Year	Total
2015	\$ 186,136
2016	3,098

The Organization also rented and had donated storage space totaling \$7,387 and \$14,564 for the fiscal years ended 2014 and 2013, respectively.

The Organization entered into two copier leases. The first was 60 month lease on May 24, 2012 for \$654 per month, the second was 36 month lease on January 7, 2014 for \$273 per month. Future minimum lease payments are as follows:

Fiscal Year	Total
2015	\$ 11,436
2016	11,436
2017	2,392

Note 14. Fundraising Expenses

The Organization raises both public and private dollars. Expenses within the Organization at June 30, 2014 and 2013, respectively, can be further allocated based on activities relating to the following:

	2014	2013
Development	\$ 446,054	\$ 553,646
Government Relations	57,524	110,643
Regional Coalitions	<u>223,176</u>	<u>199,811</u>
Total	<u>\$ 726,754</u>	<u>\$ 864,100</u>



REACH OUT AND READ, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

(Continued)

Note 15. 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 us a service mark with the U.S. Patent and Trademark office for "Where Great Stories Begin".

Note 16. 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 \$100,000 and \$755,213 at June 30, 2014 and 2013, respectively. Included in accrued expenses are amounts owed to BMC of \$131,004 and \$201,669 at June 30, 2014 and 2013, 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 \$87,801 and 122,199, at June 30, 2014 and 2013, respectively.

The total salaries, fringe benefits and administrative service fees paid under these two agreements were approximately \$2,989,816 and \$3,275,703 for 2014 and 2013, 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 17. 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, 2014

(Continued)

Note 17. Related Party Disclosure (Continued)

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

- 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 18. Subsequent Events

The Organization has evaluated events through February 23, 2015 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 December 8, 2014 the matter is still pending.



331 Page Street • Stoughton, MA 02072

Telephone: (781) 344-0850

Fax: (781) 344-6960

www.sandbergandcreeden.com

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, 2014, 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 December 5, 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
December 5, 2014

