Reach Out and Read, Inc.

Financial Statements

June 30, 2015

Reach Out and Read, Inc.

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June 30, 2015

Kevin P. Martin & Associates, P.C.
ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

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, 2015, 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.

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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, 2015, 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

The financial statements of the Organization as of June 30, 2014, were audited by other auditors whose report dated December 5, 2014, expressed an unmodified opinion on those statements. 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, 2014, 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 April 29, 2016, 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.

April 29, 2016

Kevin P. Martin & Associates, P.C.
ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

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, 2015, 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 April 29, 2016.

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.

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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.

April 29, 2016

Reach Out and Read, Inc.

Statements of Financial Position

As of June 30, 2015
With Comparative Totals as of June 30, 2014

	2015	2014
Current Assets		
Operating cash	$ 3,249,407	$ 2,796,658
Cash reserves, current	520,974	590,716
Total cash and cash equivalents	3,770,381	3,387,374
Accounts receivable	27,804	-
Pledges receivable	1,532,482	912,469
Prepaid expenses	25,516	26,652
Total current assets	5,356,183	4,326,495
Property and Equipment		
Furniture and fixtures	31,095	38,363
Equipment	26,640	191,105
Leasehold improvements	2,639	67,667
Subtotal	60,374	297,135
Less: accumulated depreciation	(26,557)	(284,577)
Total property and equipment, net	33,817	12,558
Other Assets		
Cash reserves, long-term	111,477	111,477
Security deposits	3,098	33,102
Total other assets	114,575	144,579
Total Assets	$ 5,504,575	$ 4,483,632
Current Liabilities		
Accounts payable	$ 736,746	$ 596,190
Accrued expenses	248,557	261,946
Grants payable	87,246	96,487
Deferred revenue	120,922	4,893
Total current liabilities	1,193,471	959,516
Net Assets		
Unrestricted		
Board restricted	636,000	696,000
Undesignated	441,121	651,941
Total unrestricted	1,077,121	1,347,941
Temporarily restricted	3,122,506	2,064,698
Permanently restricted	111,477	111,477
Total net assets	4,311,104	3,524,116
Total Liabilities and Net Assets	$ 5,504,575	$ 4,483,632

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, 2015
With Comparative Totals for the Year Ended June 30, 2014

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue					
Support					
Contributions	$ 793,952	$ 4,792,288	$ -	$ 5,586,240	$ 4,954,117
Donated goods and services	5,079,381	-	-	5,079,381	5,029,792
Special events	38,804	-	-	38,804	75,721
Net assets released from restrictions	3,735,669	(3,735,669)	-	-	-
Revenue					
Government grants	1,324,461	-	-	1,324,461	1,202,673
Foundation grants	54,041	-	-	54,041	48,422
Other	45,567	1,063	-	46,630	88,058
Interest	258	126	-	384	484
Total Support and Revenue	11,072,133	1,057,808	-	12,129,941	11,399,267
Expenses					
Program	9,817,449	-	-	9,817,449	9,084,429
Management and general	847,596	-	-	847,596	1,049,735
Fundraising	677,908	-	-	677,908	726,754
Total Expenses	11,342,953	-	-	11,342,953	10,860,918
Change in Net Assets	(270,820)	1,057,808	-	786,988	538,349
Net Assets - Beginning of Year	1,347,941	2,064,698	111,477	3,524,116	2,985,767
Net Assets - End of Year	$ 1,077,121	$ 3,122,506	$ 111,477	$ 4,311,104	$ 3,524,116

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, 2015
With Comparative Totals for the Year Ended June 30, 2014

Cash Flows from Operating Activities	2015	2014
Change in net assets	$ 786,988	$ 538,349
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	10,755	14,390
Decrease (increase) in assets:		
Accounts receivable	(27,804)	5,477
Pledges receivable	(620,013)	196,169
Prepaid expenses	1,136	6,220
Security deposits	30,004	-
Increase (decrease) in liabilities:		
Grants payable	(9,241)	43,593
Accounts payable	140,556	(916,874)
Accrued expenses	(13,389)	(95,909)
Deferred revenue	116,029	4,893
Net Cash Provided by (Used in) Operating Activities	415,021	(203,692)
Cash Flows from Investing Activities		
Purchase of property and equipment	(32,014)	(7,020)
Net Cash Used in Investing Activities	(32,014)	(7,020)
Net Increase (Decrease) in Cash and Cash Equivalents	383,007	(210,712)
Cash and Cash Equivalents - Beginning	3,387,374	3,598,086
Cash and Cash Equivalents - Ending	$ 3,770,381	$ 3,387,374
Supplemental Disclosure of Cash Flow Information		
Disposal of fully depreciated fixed assets	$ 268,775	$ 11,704

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, 2015
With Comparative Totals for the Year Ended June 30, 2014

	Total Program	Management and General	Fundraising	2015 Total	2014 Total
Salaries	$ 1,623,400	$ 332,608	$ 318,970	$ 2,274,978	$ 2,366,811
Payroll taxes and benefits	398,892	77,519	85,735	562,146	532,864
Subtotal	2,022,292	410,127	404,705	2,837,124	2,899,675
Books	6,651,910	-	-	6,651,910	6,167,007
Conference and travel	83,809	5,094	13,214	102,117	80,042
Consulting	638,081	192,174	145,171	975,426	623,340
Depreciation	-	10,755	-	10,755	14,390
Equipment rental and maintenance	25,438	37,440	-	62,878	59,741
Literacy materials	52,197	-	-	52,197	54,391
Other expenses	9,477	9,253	18,658	37,388	102,496
Other communications	11,005	21,121	32,097	64,223	85,686
Other occupancy expenses	13,234	37,783	2,939	53,956	29,786
Payroll and HR administration	78,334	11,703	17,518	107,555	90,141
Postage and delivery	6,026	2,242	2,907	11,175	13,324
Printing and copying	1,344	958	941	3,243	5,589
Professional fees	-	28,969	-	28,969	380,849
Recruitment	995	175	9,251	10,421	1,344
Rent	137,790	34,762	22,455	195,007	190,256
Research and evaluation	19,185	-	-	19,185	390
Staff development/education/training	-	988	4,075	5,063	2,376
Supplies	12,637	31,377	2,894	46,908	17,895
Telephone/internet	15,365	12,675	1,083	29,123	29,679
Training	38,330	-	-	38,330	12,521
Total Functional Expenses	$ 9,817,449	$ 847,596	$ 677,908	$ 11,342,953	$ 10,860,918

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

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2015

(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, 2015, approximately 1.4 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.

(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.

(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 (permanently restricted, temporarily restricted and unrestricted) 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:

<u>Unrestricted</u> - 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.

<u>Temporarily Restricted</u> - 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.

<u>Permanently Restricted</u> **-** 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. Reconciled cash and deposit balances maintained with BNY Mellon amounted to $3,881,858 as of June 30, 2015. The Organization did not maintain cash balances in excess of FDIC limits in any other financial institution as of June 30, 2015.

(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.

Special Events - Special event revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special event contributions and fees are recognized as income when received.

Deferred revenue represents grants received prior to year-end for the following fiscal period. These amounts are recognized as income during the subsequent fiscal period.

During the year ended June 30, 2015, the Organization derived approximately 46% of its total revenue from contributions, 42% from donated goods and services, 11% from grants and 1% from all other sources. All revenue is recorded at the estimated net realizable amounts.

(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, 2015, 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. As of June 30, 2015, all accounts receivable are due from the prior landlord of the Organization; see Note 4.

(1) Summary of Significant Accounting Policies - continued

(g) Pledges Receivable

Unconditional pledges are recognized as revenue and as assets, net of allowances, in the period in which the promises are made. Conditional pledges are recognized only when the conditions on which they depend are substantially met and when the pledges become unconditional. Unconditional pledges are recorded, in the year received, at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted discount rate in the year the pledge is received.

Unconditional pledges 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 pledges. As of June 30, 2015, management has determined any allowance would be immaterial.

All pledges receivable as of June 30, 2015 are expected to be collected in fiscal year 2016. In addition, credit risk with respect to pledges receivable is considered low as a significant portion of the pledges receivable are from foundations which have been in operation for multiple years and have reported significant assets.

(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	3-7 years
Equipment	3-7 years
Leasehold improvements	3-5 years

During the year ended June 30, 2015, the Organization changed office locations and as a part of the move disposed of a significant amount of fully depreciated assets including leasehold improvements, furniture, fixtures and equipment. Total fully depreciation assets disposed of during the year ended June 30, 2015 totaled $268,775.

(1) Summary of Significant Accounting Policies - continued

(i) Donated Goods and Services

Donated goods are reported in the financial statements at their estimated fair values at the time of receipt. Donated services are similarly reported when services are performed which would otherwise have been purchased or performed by Organization personnel.

(j) Fundraising

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

(k) 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.

(l) 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.

(m) 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.

Reach Out and Read, Inc.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(n) Income Taxes

The Organization qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and therefore is not subject to income tax. The Organization is not a private foundation under Section 509(a)(1). Certain unrelated business income, as defined in the IRC, is subject to federal income tax. For the year ended June 30, 2015, there was no liability for tax on unrelated business income.

GAAP prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended June 30, 2015, the Organization has determined that it has not taken any tax positions which would result in an uncertainty requiring recognition in the accompanying financial statements. The Organization recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. There were no interest or penalties for the year ended June 30, 2015.

Generally, the Organization's information returns remain open for possible federal income tax examination for three years after the filing date. The Organization is not currently under examination by any taxing jurisdiction.

(o) Summarized Financial Information for 2014

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, 2014, from which the summarized information was derived.

(p) Reclassifications

Certain amounts in the prior year comparative statements have been reclassified to conform to the current year presentation.

(2) Line of Credit

The Organization had a $500,000 revolving line of credit with BNY Mellon dated January 23, 2004 which was unused during the year ended June 30, 2015. Advances on the line of credit were payable on demand and carried an interest rate of .75% above the Broker Call rate as quoted in The Wall Street Journal. The credit line was secured by cash held in a business money market account at the financial institution. Additional deposit conditions applied. During the year ended June 30, 2015, the line of credit was closed.

(3) Donated Goods and Services

Donated goods and services for the year ended June 30, 2015 were as follows:

Pro-bono outside services:		
Legal service	$	11,873
Professional services		42,368
Gifts in kind:		
Books and literacy materials		5,001,912
Software		20,118
Rent		3,110
Total revenue recognized	$	5,079,381

Donated books from one corporation accounts for 92% of the donated goods and services received during the year ended June 30, 2015.

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 the Organization.

Other volunteer efforts, not meeting the definition above and therefore not reflected in the accompanying financial statements include: 1) additional legal services that otherwise would not have been purchased; 2) community based advisory board services; 3) fundraising and public awareness efforts; 4) reading to children in the waiting rooms at approved medical sites; and most importantly, 5) medical providers implementing the program during the medical visit.

(4) Operating Lease Commitments

Near year-end, 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 significant fully depreciated assets.

The Organization occupies multiple office spaces under non-cancelable, operating lease agreements with various expiration dates through 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:

2016	$ 90,376
2017	55,785
2018	52,640

Rent, common area and property tax expense for the year ended June 30, 2015 was $195,007.

The Organization also leases equipment for use within their office locations with expiration dates through 2017. Future minimum lease payments are as follows:

2016	$ 11,124
2017	2,616

(5) Commitments and Contingencies

(a) Insperity

The Organization as a co-employee relationship with Insperity, whereby all employees are compensated by Insperity. The Organization pays Insperity for 100% of gross salaries, as well as 25.35% of gross salaries for taxes, benefits and related fees. As of June 30, 2015, $165,149 is owed to Insperity 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 $2,944,679 for the year ended June 30, 2015.

(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.

(5) Commitments and Contingencies - continued

(b) Governmental Agencies - continued

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.

(6) Restricted Net Assets

(a) Board Restricted Net Assets

The Board of Directors has designated $636,000 of accumulated earnings to be used for future budgeted program activities in fiscal year 2016.

(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, 2015, temporarily restricted net assets are restricted or the following purposes:

Time restricted	$ 1,871,017
Program use	1,251,489
Total	$ 3,122,506

(6) Restricted Net Assets - continued

(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 costs as reflected in the schedule below. The permanently restricted donations are being held in money market accounts. 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, 2015.

As of June 30, 2015, permanently restricted net assets totaled $111,477. Interest of $126 was earned and released on these permanent restricted net assets during the year ended June 30, 2015.

(7) 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.

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;
- a Board member holds a significant position with a customer that receives donated books from the Organization, and;
- a Board member works for a vendor who evaluates one of the Organization' programs.

(8) Subsequent Events

The Organization has performed an evaluation of subsequent events through April 29, 2016, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2015 that required recognition or disclosure in these financial statements.